AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2006

WEDNESDAY, APRIL 13, 2005

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 12:30 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett and Kohl.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

KEITH COLLINS, CHIEF ECONOMIST
MARK REY, UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT
GILBERT G. GONZALEZ, ACTING UNDER SECRETARY FOR RURAL DEVELOPMENT
JOSEPH J. JEN, UNDER SECRETARY FOR RESEARCH, EDUCATION, AND ECONOMICS
J.B. PENN, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES
DENNIS KAPLAN, OFFICE OF BUDGET AND PROGRAM ANALYSIS

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The subcommittee will come to order.

We want to thank you all for your accommodating us at this somewhat unusual hour. We were scheduled to go at 2:00 p.m., and we have had to move that because of Senate activity. And I understand that there is now a vote scheduled for 1:45 p.m.. So we will try to move through this in expeditious fashion.

I am glad to see the curtain is open. That means you are not important enough to be on television, but you brought your own crowd with you. So it is well attended here today, and we appreciate your being here.

This is our second hearing on the budget request. We heard from the Secretary yesterday. And today's witnesses are Dr. Keith Collins, the USDA's chief economist; Dr. J.B. Penn, who is the Under Secretary for Farm and Foreign Agricultural Services; Mark Rey, Under Secretary for Natural Resources and Environment; Gilbert Gonzalez, Acting Under Secretary for Rural Development; and Dr. Joseph Jen, Under Secretary for Research, Education, and Economics, and accompanied by Mr. Dennis Kaplan of the Office of Budget and Program Analysis. We appreciate your service and appreciate your being here today.

The witnesses today represent production agriculture, trade, conservation, rural development, and the research and education, all of which support USDA programs, and we appreciate your being here.

As I said, we are going to have a supplemental on the floor today. So I would suggest that Dr. Collins perhaps make some opening comments from his perspective as the chief economist. And then if the rest of you are willing to hold yourself in readiness, we go to questions.

And we will do our best to hear from all of you as we go through the question situation. If that would be acceptable, we will do that in the interest of time.

Senator Kohl.

Senator KOHL. I thank you very much, Senator Bennett.

And gentlemen, it is great to have you with us today. I also will withhold an opening statement in the interest of brevity and getting to your testimony and questions, and we appreciate your coming here very much.

Thank you, Senator Bennett.

Senator BENNETT. All right. Dr. Collins, you have the floor.

STATEMENT OF KEITH COLLINS

Mr. COLLINS. Thank you very much, Chairman Bennett and Mr. Kohl. For all of us here today, let me say thank you for inviting the Department up here to discuss our 2006 budget proposals.

I am going to start with a very brief overview of the general economic situation in agriculture, and I think that will help provide some context for the discussions that you will have with our under secretaries this afternoon.

To begin with, I would say that strong domestic and foreign economic growth are providing a foundation for U.S. farm and rural economies to continue the improved performances that we have seen over the past year and the year before. Markets for livestock and livestock products, which account for about half of the farm economy, continue to remain very strong despite the closure of our beef in Asian markets.

During the first quarter of 2005, in fact, fed cattle prices averaged $89 a hundredweight, which was the second-highest quarterly price for cattle ever. With meat protein demand still firm, with cattle slaughter down, and live animal supplies expected to continue tight, I think average cattle prices are likely to remain historically strong for some time to come.

Likewise, hog, broiler, and milk returns all remain favorable as supply expansion thus far has been restrained, even in the face of growing demand.

Turning to major crops, stocks are up, and farm prices are down following last year's record production levels. However, farm cash receipts are being supported by the fact that farmers have more volume to market this year based on last year's record crops.

If you look at 2005, we believe U.S. crop production will decline. USDA's prospective plantings report, which was released a couple of weeks ago, suggests lower acreage for wheat and for soybeans, about the same acreage for rice and cotton, and a modest increase for corn. If we have trend yields in 2005, production levels would decline for all major crops, with declines ranging from 8 to 9 percent for soybeans to 20 percent for cotton.

But even with such reduced production, our crop supplies would still be ample, and I believe little price appreciation seems likely, except for cotton.

Globally, export competition will remain intense this year. Wheat from the European Union and Black Sea region, corn from Argentina and China, soybeans from Brazil and Argentina, as well as oil and demand-driven increases in shipping costs will pressure U.S. prices despite the competitive benefits from the weaker dollar.

For fiscal year 2005, U.S. agricultural exports are forecast at $59 billion, down from last year's record, but the second highest since 1996. And that is despite the continuing loss of beef export value.

With lower prices for program crops, Government payments are forecast to be a record $24 billion in 2005, and that will offset the decline in cash receipts for major crops. Under Secretaries Penn and Rey can provide more information this afternoon on how our farm and conservation programs are assisting the farm economy.

Higher prices for fuel, fertilizer, and chemicals will likely push up production expenses in 2005. But those will be offset by lower expenses for farm origin inputs, such as feed. That should keep overall production expenses about the same as last year. And with gross income about the same as last year, that means that net cash farm income should likewise be about the same as last year's record high level.

The combination of the growing overall economy, strong rural job growth, and record net cash income is expected to boost average farm household income. And Under Secretary Gonzalez today can relate how our rural development programs are helping the performance of the rural economy.

With another sound income year in prospect, farm credit conditions are expected to remain favorable. Farm input sales should be good, and farm land values will likely rise again. Thus, cash flow and balance sheet prospects indicate a pretty solid footing for the farm economy in 2005.

While many farms will benefit from these income and balance sheet trends, high cost/lower margin farms or those adversely affected by weather may not see these benefits. And I think that is why it is so important, as Dr. Jen can explain, to have research programs that can help farms overcome barriers to profitability.

PREPARED STATEMENTS

Finally, let me say consumers will continue to have abundant, affordable food. Much smaller retail price increases are expected in 2005 for meat and for vegetable oils and for dairy products. That suggests retail food prices may rise between 2.5 and 3 percent in 2005, compared with about 3.4 percent in 2004.

That completes my statement, Mr. Chairman. We would be delighted to have your questions.

Senator BENNETT. Thank you very much. And for the record, all the statements submitted by all of the witnesses will be included in the record.

[The statements follow:]

PREPARED STATEMENT OF KEITH COLLINS

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear at this hearing to discuss the current situation and outlook for U.S. agriculture. The recovery in the agricultural economy that began in 2003 is expected to continue in 2005. Net cash farm income set back-to-back record highs in 2003 and 2004. This record performance has led to general improvement in farm balance sheets. An important factor supporting the strong financial performance of the farm economy is the growth in U.S. agricultural exports. From fiscal year 2000 to fiscal year 2004, the value of U.S. agricultural exports rose by nearly $12 billion.

Livestock prices continue to remain strong even though Japan and several other countries have failed to open their markets to U.S. beef following the discovery of a cow with Bovine Spongiform Encephalopathy (BSE) in December 2003. For most major crops, farm prices are down following last year's record production, but record government payments are forecast to about offset the decline in crop cash receipts. Higher prices for energy-related inputs will likely push up production expenses for fuel and fertilizer in 2005. However, lower production expenses for farm-origin inputs should keep overall farm production expenses about unchanged from last year. With gross income and total production expenses close to last year's levels, net cash farm income in 2005 is expected to be near last year's record. Cash flow and balance prospects indicate that the farm economy will remain on a solid footing in 2005.

Outlook for United States and World Economies and the Implications for Agriculture

After several years of a weak and variable global economy that constrained the demand for U.S. agricultural products, the United States and world economies had back-to-back years of strong growth in 2003 and 2004. Both the United States and world economies are poised for strong growth in the year ahead, which will bolster the demand for U.S. agricultural products here and abroad.

In 2004, the U.S. economy grew 4.4 percent, up from 3 percent in 2003. Expansionary fiscal policy resulting from the budget deficit and the Jobs and Growth Act of 2001; the low interest rates; rising consumer income and spending; and increasing business fixed investment all boosted growth. In 2005, rising interest rates and energy prices are expected to slow the rate of economic growth in the United States to a more sustainable 3.7 percent.

The improving domestic demand base may be seen in the demand for food, which also drives demand for animal feed. Personal consumption expenditures on food rose a very strong 4.8 percent in 2004, in real terms. That compares with average growth of 3.8 percent in 2003 and less than 2 percent during the economic slowdown in 2001 and 2002.

In addition to rising food demand, domestic industrial demand for farm products is also increasing. As an example, ethanol production is setting new record highs almost every month. In 2005, U.S. ethanol production from corn will approach 4 billion gallons and is expected to account for over 13 percent of corn use.

Foreign economies had a very nice recovery in 2004, growing 3.7 percent after a sustained period of substantially lower average growth. The fitful performance of foreign economic growth had been a factor in the slow growth in U.S. farm exports since the mid-1990s. For 2005, lagging performance in Europe and Japan and slower growth in former Soviet countries and a number of developing economies are expected to reduce foreign economic growth to 3 percent. China, a $6 billion market for U.S. farm products in fiscal year 2004, is pegged to grow at 8.7 percent.

By December 2004, the agricultural trade-weighted dollar had depreciated almost 18 percent from its peak in February 2002. Over the same period, the depreciation compared with competitor agricultural exports was over 36 percent. While the dollar has already depreciated considerably, it may depreciate further in 2005 due to the historically large current account deficit. The depreciation in the dollar and robust foreign economic growth helped push U.S. agricultural exports to a record $62.3 billion in fiscal year 2004.

U.S. agricultural exports are forecast to decline to $59 billion in fiscal year 2005. The primary factors leading to the decline in exports include record global grain, soybean and cotton supplies, increased foreign competition and lower prices. This export forecast reflects, in part, the assumption that the markets that are now closed to U.S. beef and poultry exports because of BSE and Avian Influenza will remain closed in 2005. This is not a forecast of what foreign countries will do. It simply reflects our standard forecasting procedure to assume the current policies of foreign countries remain in place until they are changed.

U.S. meat exports experienced explosive growth in the 1990s but have faced slower growth over the past few years due to animal diseases and policy-driven import limitations in some countries. The United States finding of BSE has resulted in the loss of over 80 percent of U.S. export markets for beef and related products in 2004. U.S. poultry exports were flat, as outbreaks of Avian Influenza in several States resulted in a number of countries placing restrictions on poultry imports from the United States. But, U.S. pork exports rose by 27 percent last year, as trade restrictions on U.S. beef and poultry created additional export opportunities for pork. In 2005, poultry exports are forecast to increase by 5 percent and pork exports could be up 16 percent.. Beef exports are forecast to increase by 37 percent in 2005, reflecting the resumption of trade with Mexico. Despite the projected increase, U.S. beef exports are projected to be only one-quarter of pre-BSE levels.

Outlook for Major Crops

For major crops, production is expected to outpace demand for the first time in several years leading to a modest rebound in global stocks and some decline in market prices for the 2004/2005 crops. However, global grain stocks as a percent of total use remain low by historical standards. In addition, foreign economic growth appears sound. With relatively low world stocks, the potential for reduced crop production in 2005 due to a return to trend yields and economic growth continuing to support the demand for agricultural products, crop prices could move higher over the coming months.

In 2004/2005, total supplies are generally exceeding total use of major crops, leading to higher world and United States carryover. World wheat stocks at the end of the 2004/2005 marketing year are expected to increase 12 percent from a year earlier. World coarse grain stocks are forecast to be up 27 percent, world oilseed stocks are forecast to increase 40 percent, and world cotton stocks are forecast to increase 34 percent. These increases would result in global carryover stocks at their highest level in 2 years for wheat and in 3 years for coarse grains and for cotton. Reflecting the strong expansion in soybean production in South America in recent years, the forecast global oilseed stocks would be a record high at the end of 2004/2005.

For wheat, plantings in 2004 declined by 2.4 million acres to 59.7 million acres. This decline and lower yields reduced U.S. wheat production from 2.35 billion bushels in 2003 to 2.16 billion in 2004. U.S. wheat carryover is forecast to decrease by only 5 million bushels, as total use is forecast to decline by 119 million. Larger foreign wheat production in several traditional importing and major competitor countries is forecast to lower U.S. wheat exports by 109 million bushels in 2004/2005. For the current marketing year, the farm price of wheat is forecast to average $3.35–$3.45 per bushel compared with last season's $3.40.

For 2005/2006, wheat planted area is expected to be down about 2 percent, based on 4 percent lower winter wheat plantings last fall and farmers' intentions to increase spring wheat planted area. With this acreage, the lowest since 1972, and trend yields, 2005 wheat production would be about 2.1 billion bushels, about 50 million bushels below 2004. Large global supplies are expected to keep exports under pressure, thus 2005/2006 carryover stocks could rise and farm wheat prices decline slightly from 2004/2005.

U.S. rice acreage was up 11 percent in 2004, as rice producers responded to a strong recovery in prices and returns in 2003. Stocks at the end of the current marketing year are forecast at 37 million cwt, up from 24 million cwt from a year earlier and the highest as a percent of total use since the 2001/2002 marketing year. Despite the sharp increase in carryover, the farm price of rice is forecast to average $7.30–$7.50 per cwt this marketing year, compared with $8.08 per cwt in 2003/2004, as stronger world prices are helping to bolster the United States price.

In 2005, farmers indicated plans to seed 3.36 million acres, about the same as in 2004. With trend yields, U.S. rice production would decline to about 226 million cwt, but still the second largest crop ever. A modest rise in exports and domestic consumption are expected in 2005/2006, implying that rice carryover stocks and farm prices are likely to be very similar to the levels for 2004/2005.

In 2004, the corn crop was a record 11.8 billion bushels as producers harvested a record 160.4 bushels per acre, exceeding the previous record set last year by over 18 bushels per acre. The sharp increase in total supply is forecast to lead to lower prices and increasing carryover. Higher feed and industrial use is forecast to increase total use by 328 million bushels, not enough to prevent a 1.3-billion-bushel increase in carryover stocks. In 2004/2005, the use of corn for ethanol production is forecast to increase 20 percent to a record 1.4 billion bushels. This marketing year, the farm price of corn is projected to average $2.00–$2.10 per bushel, compared with $2.42 per bushel last season.

Farmers indicated plans to plant 81.4 million acres to corn in 2005 during the USDA planting intentions survey, up less than 1 percent from 2004. This level was lower than generally expected, as producers planned to switch fewer acres away from soybeans than expected and producers in the Dakotas preferred to increase area with other oilseeds, such as sunflowers and canola. High fertilizer and fuel prices may also be a factor in the limited increase in corn area. With intended acreage and trend yields, 2005 corn production would be 10.8 billion bushels, 1 billion less than the 2004 crop. However, total use is expected to about match this production, leaving carryover stocks and farm prices for 2005/06 about the same as for this marketing year.

Soybean production reached a record 3.1 billion bushels in 2004, contributing to higher domestic use, exports and carryover stocks. Soybean crush is forecast to increase by 120 million bushels to 1.65 billion and soybean exports are forecast to increase by 195 million bushels to 1.08 billion. Both crush and exports are forecast to be the second highest on record. United State carryover stocks are forecast to increase to 375 million bushels, which would be the highest carryover as a percent of total use in 6 years. In February 2005, USDA forecast Brazil's soybean production at 63 million metric tons for 2004/2005, up from 53 million metric tons a year earlier. However, USDA is currently projecting Brazil's soybean crop at 54 million metric tons.

The Brazilian crop potential has been reduced by drought, helping to bolster U.S. soybean prices. The farm price of soybeans is projected to decrease from last season's average of $7.34 per bushel to $5.25–$5.55 per bushel this marketing year.

In 2005, farmers indicated in USDA's recent survey that they would plant 73.9 million acres to soybeans. Although down 2 percent from 2004, this acreage level generally exceeded expectations. The declines are largest in the south, where Asian rust was a factor and in the northern plains, where shifting to other oilseeds is expected. USDA's survey indicated that 11 percent of soybean producers had adjusted their planting intentions due to the presence of Asian rust in the United States. This low figure combined with the modest decline in intended acreage nationally suggests Asian rust is not likely to be a major factor in determining this year's United States planted acreage. With this acreage and trend yields, 2005 soybean production would drop back to 2.9 billion bushels, about equal to projected use, and leave carryover stocks about unchanged. Prices in 2005/2006 are projected below 2004/2005 when drought reduced carryin stocks.

In 2004, U.S. cotton production reached a record 23.1 million bales, up from 18.3 million in 2003. Larger supplies coupled with lower exports and domestic use have increased expected carryover and pushed prices lower this season. U.S. exports of cotton are forecast to drop from last year's record high 13.8 million bales to 13.2 million in 2004/2005, as production in China, our largest export market, is up from a year ago. Carryover stocks at the end of this season are projected to increase to 7.1 million bales, the highest in 3 years. During the first 7 months of the current marketing year, cotton prices have averaged 43 cents per pound, compared with last season's average of 61.8 cents per pound.

For 2005, producers indicate plans to plant 13.8 million acres to cotton, up slightly from 2004. In the Delta States, where Asian rust in soybeans is of increased concern, intentions are up 12 percent, led by Louisiana's 24 percent. With trend yields, this acreage would produce a 2005 crop of 18.1 million bales, down 5 million from last year. Although domestic use is expected to continue its trend decline under pressure from imported textiles and apparel, good export prospects and lower production would reduce 2005/2006 carryover stocks substantially.

A persistent concern in U.S. agriculture is whether we are losing our competitiveness in bulk commodities in world markets. The United States share of global exports has been declining for decades for wheat, coarse grains, rice and soybeans, and only turned up recently for cotton in recent years as increased imports of textiles and apparel shifted U.S. textile production overseas, creating higher foreign demand for our cotton. Brazil, Argentina, China, India and the former Soviet countries have increased agricultural exports by either expanding arable land, increasing productivity or altering internal policies. The share of global export markets of these countries rose from 2 percent of world grain and soybean exports in 1994 to a peak of 30 percent in 2002. But their share of world trade in 2004/2005 is expected to be 20 percent, the same as last year.

In the future, we continue to believe that China will be a steadily increasing importer, that India will consume its own grain, and that gains for the former Soviet countries, while expected to continue, will not come as easily as recent gains; an inhospitable climate may also make them an irregular competitor. Thus, while competition will be strong, there is every reason to think that the United States will be a strong competitor as well.

China remains an especially important factor in bulk commodity trade. China's role as a United States competitor in grain markets continued to decline in 2004/2005. China's net imports of wheat are expected to reach 6.5 million metric tons, up from less than 1 million in 2003/2004. Their net exports of coarse grains are also expected to fall from 6.2 million tons in 2003/2004 to 3.2 million in 2004/2005. In addition, China's growing oilseed crushing and textile export industries have resulted in soaring soybean and cotton imports. China is likely to continue to be a positive factor for U.S. agriculture in 2005/2006. USDA forecasts U.S. agricultural exports to China will fall from last year's record of $6.1 billion to $4.6 billion in fiscal year 2005. The drop primarily reflects much lower United States prices for cotton and soybeans. China is expected to remain the fifth largest U.S. agricultural export market.

Horticultural markets have become an important contributor to farm income for all size producers. For 2005, cash receipts from fruits, vegetables and greenhouse and nursery crops are forecast to be $45.3 billion, down 2 percent from last year. With average weather, farm receipts for fruits and nuts are expected to decline as production rebounds, leading to generally lower prices. Exports for horticultural crops for fiscal year 2005 are forecast to reach $14.5 billion, up substantially from last year's $13.3 billion.

In recent years, strong demand for imported products has increased the sector's trade deficit which is forecast at $11.1 billion in fiscal year 2005. During the last 10 years, domestic production growth has averaged only 0.5 percent, compared with import growth of 4.4 percent. And with commercial and government interest in increasing the role of fruits and vegetables in the American diet, the sector's trade deficit likely will continue to grow to meet expanding demand.

Outlook for Livestock, Poultry and Dairy

Reduced supplies of red meat and nearly stable milk production combined with increasing demand led to record-high fed cattle, broiler and milk prices in 2004. Hog prices were also up sharply, pushing livestock cash receipts to a record $122 billion, a 16-percent increase from the previous year. While several traditional beef importers have failed to open their markets to U.S. beef following the single BSE incident in late December 2003, market fundamentals generally remain quite strong. In addition, lower feed costs in 2005 are also helping to bolster the returns of livestock and dairy producers.

Beef production dropped 6.4 percent in 2004. The drop in production reflected tight domestic cattle inventories, following several years of herd liquidation, and the continued closure of the border to Canadian cattle imports. In addition to the drop in production, strong consumer demand for meat protein, the improving restaurant and hotel business, and improved diversity and quality of retail beef products have also helped support beef prices. During 2004, the price of choice steers averaged a record $84.75 per cwt.

Cattle herd liquidation ended in 2004 as the U.S. cattle inventory on January 1, 2005, was 1 percent higher than a year earlier. This was the first increase in herd size since January 1996. Herd rebuilding is expected to be slow as the calf crop in 2004 was almost 1 percent smaller than the previous year, leaving a small base from which to retain heifers in 2005. USDA's April cattle market forecast assumes that live cattle imports from Canada will resume during the second half of 2005 and that fed cattle prices will average $83–87 per cwt. Prices could be substantially stronger if Japan and other Asian countries open their markets to U.S. beef.

In 2004, pork production increased 2.8 percent to a record 20.5 billion pounds. Despite the increase in pork supplies, the price of slaughter hogs averaged $52.51 per cwt in 2004, up from $39.45 in 2003, as tight supplies of beef boosted the demand for pork. In addition, U.S. pork exports were record high in 2004 as demand has been strong in markets that banned beef imports because of BSE or banned broiler imports because of Avian Influenza. Other factors contributing to the growth in pork exports are the weaker United States dollar and improved global economic performance, especially in Mexico.

Despite high hog prices last year, hog producers have been cautious about expanding, as indicated in farrowing intentions surveys. In 2005, pork production is forecast up 1.2 percent. Hog slaughter will increase as a result of the recent International Trade Commission finding that removes duties placed on Canadian hogs and encourages imports of Canadian feeder pigs and slaughter hogs. Hog prices are forecast to average $48–$50 per cwt in 2005. While down from a year ago, hog prices would still be about $10 per cwt higher than during 1998–2003.

Broiler production increased 4.0 percent to a record 34.1 billion pounds in 2004. Higher prices for competing meat products and an improving domestic economy pushed whole-bird broiler prices to a record 74.1 cents per pound in 2004, up from 62.0 cents in 2003. Broiler exports fell 3 percent in 2004 as several countries restricted imports of U.S. poultry following outbreaks of Avian Influenza in Delaware, New Jersey, Pennsylvania, Texas and Maryland.

Broiler production is forecast to increase about 3 percent in 2005, as producers respond to the increase in broiler prices. Continued strong prices for competing meats and a rebound in U.S. broiler exports are expected to maintain broiler prices at near last year's level. Lower broiler part prices compared with mid-2004 should stimulate sales, and several countries have either fully lifted the trade ban on U.S. poultry following last year's outbreaks of Avian Influenza or allowed the importation of U.S. poultry from selected States.

In 2004, milk production increased by just 0.2 percent, as cow numbers fell by 0.8 percent and milk production per cow increased by 1.1 percent. Over the past 2 years, milk production has increased by less than 0.5 percent, marking the slowest growth in milk production over a 2-year period since the mid-1980s. Many factors have contributed to this sluggish growth, including tight supplies of good quality hay, the discovery of BSE in Canada and the subsequent suspension of imports of dairy cows and heifers from that country, limitations on the availability of bovine somatotropin (rBST), the National Milk Producers Federation's CWT program which pays producers to reduce milk production, and weak milk prices during 2002 and the first half of 2003. Tightening milk supplies caused the all-milk price to average a record $16.03 per cwt in 2004, up from $12.55 per cwt in 2003.

During most of 2004, the Commodity Credit Corporation (CCC) continued to purchase nonfat dry milk under the price support program despite a record-high milk price. In 2004, CCC purchased 278 million pounds of nonfat dry milk, down from the 635 million pounds purchased in 2003. The CCC did not purchase any butter or cheese under the milk price support program in 2004. Tightening domestic and international milk supplies are keeping nonfat dry milk prices above support. Since mid-November, the CCC has not purchased any nonfat dry milk.

Higher milk prices in 2004 reduced payments under the Milk Income Loss Contract (MILC) program. In 2003, MILC payments were triggered during January through August and the MILC payment rate averaged $1.09 per cwt over the entire year. The MILC payment rate averaged $0.22 per cwt in 2004 with payments being triggered during January through April. So far this year, no payments have been made under the MILC program.

Milk production is forecast to increase by 1.6 percent in 2005, as production per cow recovers from 2 years of anemic growth. Monsanto has announced that it is increasing the supply of rBST, and lower feed costs should boost milk production per cow. The all-milk price is projected to average $15.00 per cwt in 2005, which would be the fourth highest on record.

Outlook for Farm Income

In 2004, farm cash receipts, net farm income and net cash farm income all registered historic high. Farm cash receipts reached a record $235 billion in 2004 as both livestock and crop receipts were record highs. Livestock receipts rose by $16.7 billion in 2004, reflecting strong prices for cattle, hogs, poultry and milk. Prices for major crops generally exceeded year-earlier levels through the first 9 months of 2004, allowing producers to sell the remainder of the large harvests from the fall of 2003 at unusually favorable prices. These higher prices were largely responsible for a $7-billion increase in crop receipts in 2004. Net cash farm income reached a record $77.8 billion in 2004, up from the previous record of $68.6 billion in 2003.

In 2005, both crop and livestock receipts are forecast to decline from last year's record high. Despite the drop, farm cash receipts in 2005 are projected to be the second highest on record, surpassing $222 billion. Higher government payments are forecast to offset the drop in farm cash receipts in 2005. The record crops harvested in 2004 have lowered prices for major crops, triggering additional government payments under the 2002 Farm Bill. In addition, producers affected by adverse weather in either 2003 or 2004 will be eligible to receive disaster payments in 2005. In 2005, government payments are forecast to reach $24 billion, exceeding the record of $22 billion in 2000. With higher government payments offsetting lower cash receipts, net cash farm income is forecast to remain very near last year's record. While most producers will face these generally favorable conditions, some, such as high cost producers or those affected by adverse weather, will not see these income benefits.

An indicator of the underlying fundamental strength of commodity markets is farm income excluding government payments. In 2000, net cash farm income excluding government payments hit a cyclical low of $34 billion. As markets have strengthened, payments based on prices have declined, so that more of net cash income is now coming from market sales. In 2004, net cash income excluding government payments increased to $63.3 billion. In 2005, net cash farm income excluding government payments is projected to fall to $54 billion. While below this past year, net cash farm income excluding government payments remains well above the cyclical low in 2000.

Farm production expenses are expected to be about unchanged in 2005 following a $13-billion increase last year. Higher prices for feed, feeder livestock, labor, fuel, fertilizer and other inputs pushed up production expenses in 2004. In 2005, lower feed and feeder cattle prices are expected to about offset increases in energy-based input costs, such as fuel and fertilizer.

The income earned by farm operator households in 2005 is expected to continue the increases of recent years. Average farm household income is forecast at $73,059, up nearly 3 percent from 2004. A 3.4 percent increase is expected in off-farm income, a modest rise from 2004, but more than enough to offset the also modest reduction in net farm income from 2004.

With another sound income year in prospect, farmland values may rise 4–5 percent in 2005. This increase would maintain the improvement in the farm sector balance sheet that we saw in 2003 and 2004. After ranging between 14.8 percent and 15.2 percent during 1992–2002, the farm debt-to-asset ratio fell to 14.2 percent last year and expected to remain steady in 2005. Recent increases in debt have been offset by larger gains in farm asset values. As a result of farm real estate values rising faster than farm mortgage debt, the degree of farmland leverage declined slightly. This has provided farmland owners with an added equity cushion to lessen the impact of any short-term declines in income or asset values. While uncertainty remains over the sustainability of the global economic recovery, the value of the dollar, issues raised by the Federal budget deficit, trade negotiations, emerging competitors, animal diseases, and oil prices, U.S. agriculture appears poised for another sound financial year in 2005.

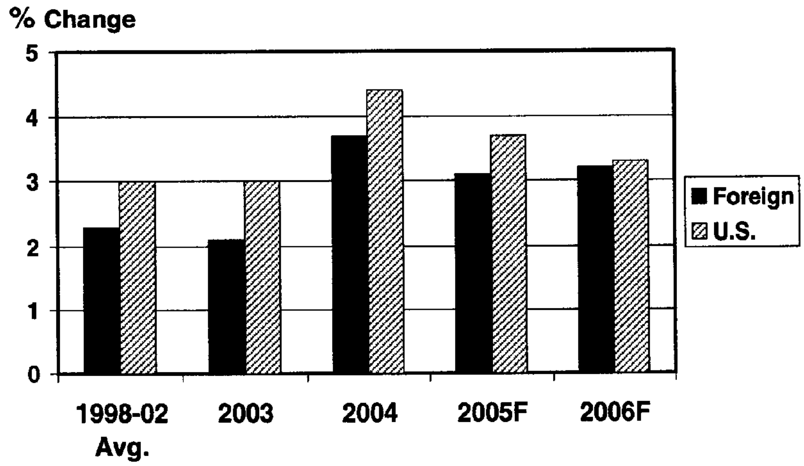
That completes my statement, and I will be happy to respond to any questions.

Farm Economic Indicators

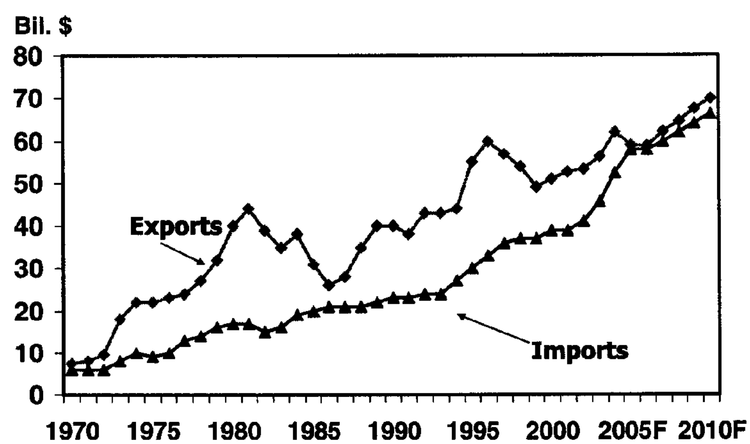
Commodity Prices	Unit	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04E	2004/05F
Wheat	$/bu	2.65	2.48	2.62	2.78	3.56	3.40	3.35-3.45
Corn	$/bu	1.94	1.82	1.85	1.97	2.32	2.42	2.00-2.10
Soybeans	$/bu	4.93	4.63	4.54	4.38	5.53	7.34	5.25-5.55
Rice	$/cwt	8.89	5.93	5.61	4.25	4.49	8.08	7.30-7.50
Cotton	cents/lb	60.20	45.00	49.8	29.8	44.5	61.8	43.0 1/
		1999	2000	2001	2002	2003	2004	2005F
Hogs	$/cwt	34.00	44.70	45.81	34.92	39.45	52.51	48-50
Steers	$/cwt	65.56	69.65	72.71	67.04	84.69	84.75	83-87
Broilers	cents/lb	58.10	56.20	59.10	55.60	62.00	74.10	71-75
Milk	$/cwt	14.38	12.40	15.04	12.18	12.55	16.03	14.75-15.25
Gasoline 2/	$/gallon	1.18	1.53	1.47	1.39	1.60	1.89	2.07
Diesel 2/	$/gallon	1.12	1.49	1.40	1.32	1.50	1.81	2.04
Natural gas (wlhd) 2/	$/K cu. ft.	2.19	3.70	4.01	2.95	4.89	5.49	5.02
Electricity 2/	$/kwh	8.16	8.24	8.62	8.45	8.70	8.91	9.20
Ag. Trade (Bil. $)	FY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05F
Total exports	53.6	49.1	50.7	52.7	53.3	56.2	62.3	59.0
Asia	19.7	18.5	19.7	20.1	19.4	21.6	24.3	20.7
Canada	7.0	7.0	7.5	8.0	8.6	9.1	9.5	10.2
Mexico	6.0	5.7	6.3	7.3	7.1	7.7	8.4	8.5
Total imports	36.8	37.3	38.9	39.0	41.0	45.7	52.7	58.0
Farm Income (Bil. $)	1998	1999	2000	2001	2002	2003	2004	2005F
Cash receipts	196.8	187.6	192.0	200.1	195.1	211.6	235.4	222.4
Gov't payments	12.4	21.5	22.9	20.7	11.0	15.9	14.5	24.1
Gross cash income	222.5	224.0	228.6	235.6	222.0	243.9	266.1	263.4
Cash expenses	165.5	166.6	172.1	176.0	171.3	175.4	188.3	185.3
Net cash income	57.0	57.5	56.5	59.5	50.7	68.6	77.8	78.1

E=estimate; F=forecast.
1/ August through February average.
2/ Source: Energy Information Administration, Short Term Energy Outlook, March 9, 2005.

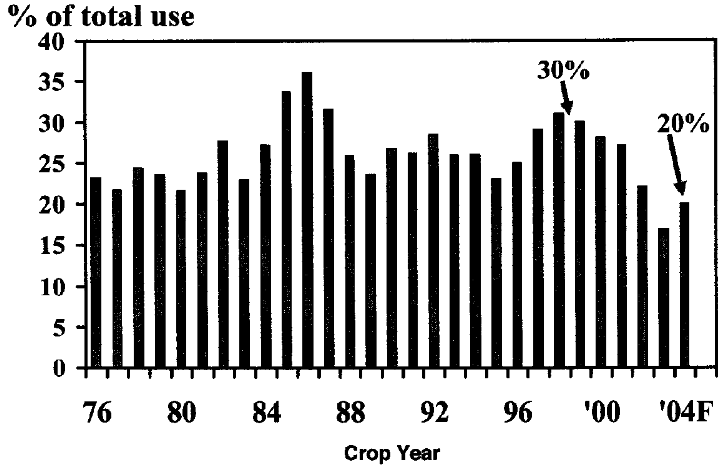
U.S. & Foreign GDP Growth Rates



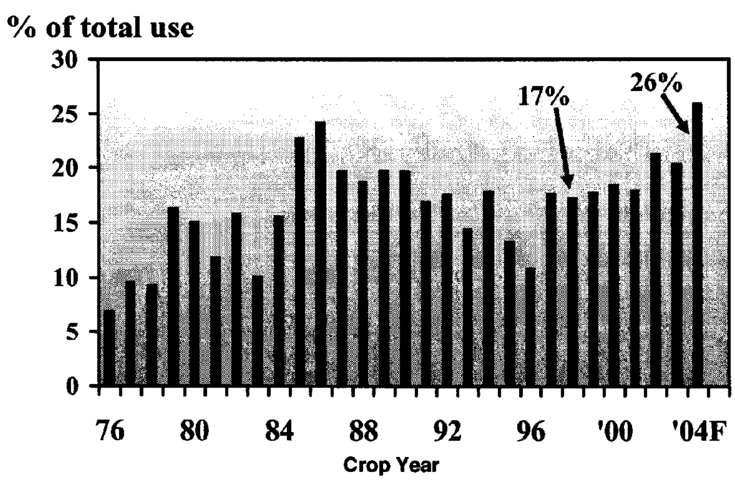
U.S. Agricultural Exports & Imports



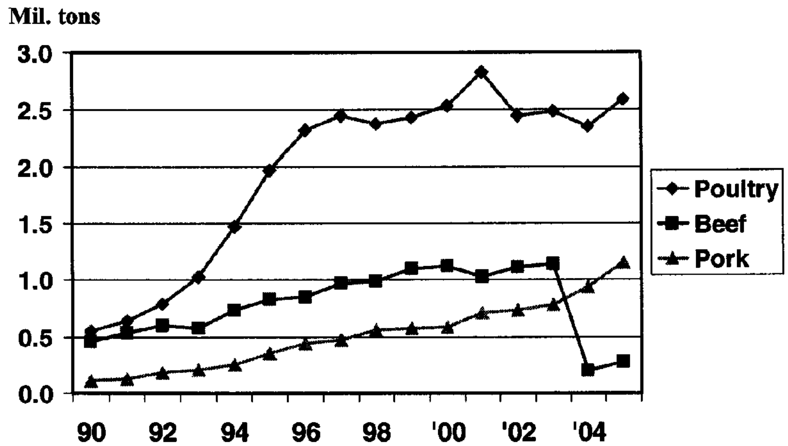
World Wheat and Coarse Grain Stocks



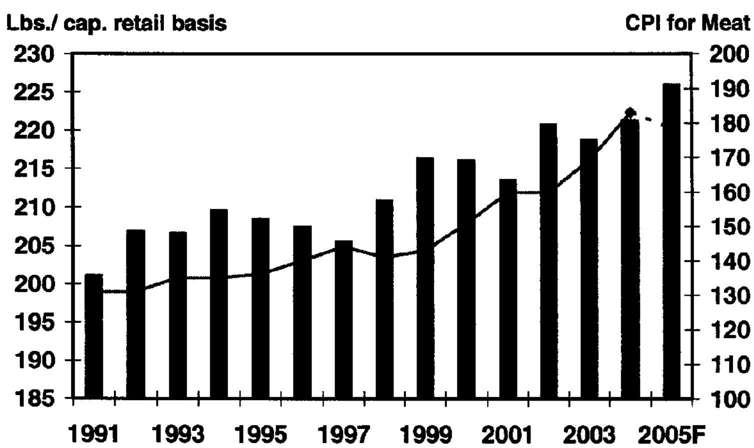
World Soybean Stocks



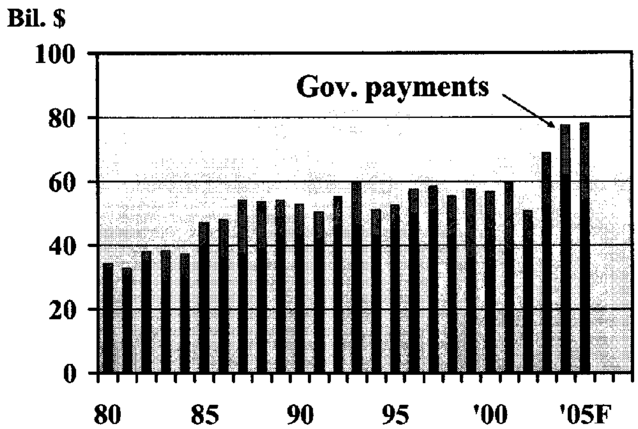
U.S. Meat Exports



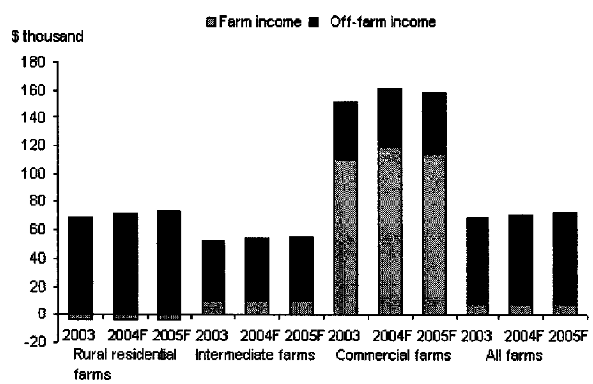
Retail Meat Consumption & CPI for Meat (red line)



U.S. Net Cash Farm Income …
Records in 2003, 2004 & 2005F

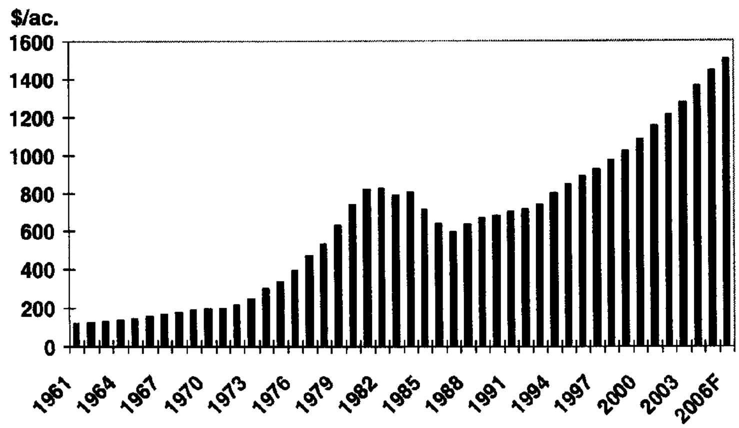


Farm Operator Household Income



Source: 2003 USDA *Agricultural Resource Management Survey*
Economic Research Service, USDA

Value of Farm Real Estate (Jan. 1)



PREPARED STATEMENT OF MARK REY

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to present the fiscal year 2006 budget and program proposals for the Natural Resources Conservation Service (NRCS) of the Department of Agriculture (USDA). I am grateful to the Chairman and members of this body for the ongoing support of private lands conservation and the protection of soil, water, and other natural resources.

Farmers, ranchers, and other private landowners across America play a vital role in conserving our Nation's soil, water, air, and wildlife resources while producing abundant food and fiber. This year, NRCS celebrates its 70th Anniversary. I am proud to say that even though the issues facing farmers and ranchers have grown more complex, NRCS has risen to the challenge to help agriculture become even more vibrant and productive while helping to protect our private land natural resource base.

Fiscal Year 2006 President's Budget

The President's fiscal year 2006 Budget request for NRCS provides resources for the ongoing mission of NRCS while ensuring that new challenges faced by landowners can be addressed.

Because of the overriding need to reduce the deficit, NRCS, like every Federal agency, will share in the responsibility of controlling Federal spending. There are proposals in the budget that will produce savings in both the mandatory and discretionary accounts. These savings will enable the Administration to target funding based on need and reward performance. It also allows the Administration to commit limited resources to the highest priorities, such as accelerating technical assistance to help agricultural producers meet regulatory challenges, particularly in the area of helping to manage livestock and poultry waste.

With that said, the President's fiscal year 2006 Budget request for NRCS recognizes the vital role that natural resource conservation plays in securing America's national security. Without productive soil, clean water and air, and farmers and ranchers who can make a living off the land, the United States would not be the strong Nation it is today.

The budget includes key increases within the Conservation Technical Assistance (CTA) account—an additional $37.2 million to help producers comply with Animal Feeding Operations/Confined Animal Feeding Operations regulations, and $10 million to control invasive species. This year, total NRCS funding for both discretionary and mandatory programs is proposed at $2.7 billion.

Building Strong Accountability Measures

In the current budget environment, it is more important than ever to continue working diligently in accountability and results measurements for the funds provided by Congress. Mr. Chairman, I am proud of the great strides NRCS has made in the past year on performance and results, as well as making NRCS information more accessible to farmers, ranchers, and the general public. NRCS has taken bold steps to address all the challenges identified as a result of the Program Assessment Rating Tool (PART) score for the base agency program of CTA.

Meeting the President's Management Agenda is very critical to all of us at USDA. Linking program requirements and program allocations to performance and accountability measures helps both the Administration and Congress make budget decisions. I am proud to report that this year was the first year that NRCS could track direct charge through an entire budget development cycle. Direct charge has improved the ability of NRCS to directly track how NRCS employees spend every day and how the technical assistance workload is distributed among programs. This is a critical management tool, and will allow the Agency to prioritize work and provide even greater accountability to the taxpayers and members of Congress.

In addition, as a result of the accountability management processes, NRCS has established national CTA program priorities for fiscal year 2005. These priorities include development of Comprehensive Nutrient Management Plans (CNMPs) to assist landowners needing to comply with the Environmental Protection Agency's Concentrated Animal Feeding Operation Rule; reduction of non-point source pollution, such as nutrients, sediments, pesticides, or excess salinity in watersheds; reduction of emissions that contribute to air quality impairment; reduction in soil erosion and sedimentation from unacceptable levels on agriculture lands; and promotion of habitat conservation for at-risk species.

I am encouraged to report this direct link between performance and priority setting and look forward to reporting further on the results of this effort.

Cooperative Conservation

At the heart of delivery of voluntary conservation programs is cooperative conservation. Cooperation in the delivery of programs at the Federal, State and local levels with landowners, tribes, government agencies and nongovernmental organizations is critical to providing accountable, quality land care assistance. In August 2004, the President issued an Executive Order on Facilitation of Cooperative Conservation. Through this directive, the President has sent a clear message that we can look forward to greater cooperation among Federal agencies on natural resource issues. The order instructs Federal departments and agencies to enter into conservation partnerships, and to empower local participation in programs and projects that protect and conserve natural resources and the environment. The Department of Agriculture has embraced this concept, and is working with other Federal agencies to highlight the successes of our joint efforts.

Looking Ahead

As the NRCS prepares to celebrate its 70th Anniversary this spring, we have much to be proud of in private lands conservation. It is rewarding to see the changes on the landscape that those early pioneers in soil conservation envisioned—conservation terraces that stop sheet and rill erosion, streamside vegetative buffers, acres of wetland habitat, and healthy grazing and forest lands. Even with all those changes, the next 3 years (fiscal year 2005 through fiscal year 2007) promise to be record years for conservation implementation and spending. This effort will continue to change the face of our Nation's private lands landscape. Now more than ever, the field staff of NRCS are focused on working with farmers, ranchers and other conservation partners to get the job done.

Mr. Chairman, in summary, we all know that we are trying to plan for the future under an atmosphere of increasingly austere budgets and with a multitude of unknowns on the domestic and international fronts. I believe that the Administration's fiscal year 2006 Budget request reflects sound policy, and will provide stability to the vital mission of conservation on private lands. The budget request reflects sound business management practices and the best way to work for the future and utilize valuable conservation dollars.

I thank members of the Subcommittee for the opportunity to appear, and would be happy to respond to any questions that Members might have.

PREPARED STATEMENT OF BRUCE I. KNIGHT, CHIEF, NATURAL RESOURCES CONSERVATION SERVICE

Thank you for the opportunity to appear before you today to discuss our fiscal year 2006 Budget request for the Natural Resources Conservation Service (NRCS).

As we look ahead to fiscal year 2006, and the contents of the Administration's Budget request, I want to take a moment to reflect upon all of the changes that have taken place within NRCS over the past year. Since I last appeared before this Subcommittee, a great deal of organizational change, streamlining, and improvements have taken shape.

To begin, we have a new Associate Chief of NRCS, Dana D. York. Dana began her new position in August, and is a wonderful addition to our management team. She has spent more than 28 years working for NRCS at every level, including experience as a District Conservationist in the field. She also has a breadth of experience on managing organizational change, which is a timely skill, given the major organizational changes that NRCS has embarked upon over the past 18 months.

AGENCY REORGANIZATION

Mr. Chairman, since our last hearing with this Subcommittee, we also have three Regional Assistant Chiefs on board at NRCS National Headquarters. Richard Coombe is heading up operations for the East Region; Merlin Bartz for the Central Region, and Sara Braasch for the West Region. The Regional Assistant Chiefs are providing leadership excellence in management for their respective States. They are also providing a critical link directly between the functions of National Headquarters and our Agency field activities.

Overall, the NRCS reorganization is strengthening our support to States, better aligning expertise with applied conservation, and making NRCS a more efficient and effective organization. In September, we launched our three new National Technology Support Centers in Greensboro, North Carolina; Fort Worth, Texas; and Portland, Oregon. The Centers are providing integrated technological support and expertise for field conservationists. We have also reorganized National Headquarters to ensure that comparable functions are appropriately assigned to staff with similar expertise. For example, we now have a single Easement Programs Division, and a single Financial Assistance Programs Division to ensure that we have the right people working together to meet common program objectives. In general, these changes are helping to ensure that hard work from our staff is translating to work on the ground.

I am proud of how NRCS staff, at all levels, has responded to the major organizational changes made over the past year. More than 130 employees impacted by the reorganization have moved into their new assignments. Although this process was not easy, and required many careful steps and planning, it has gone remarkably well. We are now in a position to realize the benefits of the new organizational structure.

Like most Federal agencies, NRCS faces a retirement bulge with 35 percent of our natural resource professionals eligible to retire in the next 5 years. To ensure we have capable professionals in the future, we piloted the Conservation Boot Camp. New employees spent six weeks learning conservation planning and application skills. We plan three additional pilots this year. The goal of the pilots is to enable the agency to maintain its cadre of professional employees well into the future.

PERFORMANCE UNDER PRESSURE

Given the shifts that have taken place over the past year, I think the agency's accomplishments are all the more impressive. Last year, NRCS and our partners:

—Provided technical assistance on over 27 million acres of working farm and ranch land to reduce erosion, sedimentation and nutrient runoff, enhance water quality, restore and create wetlands, and improve and establish wildlife habitat;
—Developed 6,100 Comprehensive Nutrient Management Plans and applied 3,400;
—Served nearly 3.8 million customers around the country;
—Completed or updated soil survey mapping on 28 million acres;
—Executed over 47,000 Environmental Quality Incentives Program agreements;
—Enrolled over 3,000 Wildlife Habitat Incentives Program agreements;
—Helped land managers create, restore, or enhance wetlands through more than 1,000 contracts;
—Implemented the new Conservation Security program under a tight deadline;
—Facilitated over one million hours of Earth Team volunteer service; and

—Brought the number of proposed, interim final, and final rules issued for implementation of the Farm Bill to 21.

As we move forward in fiscal year 2005, there are numerous challenges and opportunities ahead, with NRCS playing a central role in meeting the Administration's conservation objectives. We look to you to build upon the fine accomplishments achieved this year to reach an even brighter future.

INCREASING THIRD-PARTY TECHNICAL ASSISTANCE

With the historic increase in conservation funding made available by the 2002 Farm Bill, NRCS will continue to look to non-Federal partners and private technical service providers (TSPs) to supply the technical assistance needed to plan and oversee the installation of conservation practices. I am proud to report that as of the beginning of March 2005, there are 2,201 TSPs registered with NRCS. Last year, we set the goal to use $40 million in TSP assistance. NRCS surpassed this goal for fiscal year 2004 and obligated $49.2 million for TSPs. In fiscal year 2005, our goal is to reach $45 million for TSPs, or an equivalent of 428 staff years.

TRANSPARENCY

Transparency of agency operations is an area that I have highlighted in the past, and I want to be clear that it remains a key focus of NRCS. NRCS has made tremendous gains in providing complete access to program information, allocations, backlog, and contracting data to the public. Our goal has been to ensure operational processes are completely open to customers and stakeholders. On the NRCS website, the Agency provides the following information:

—State rankings for funding in conservation programs;

—State Field Office Technical Guides;

—Program performance data; and

—Public input sessions to gather feedback on Farm Bill program operation and priority setting.

NRCS has also taken strides to improve access to information in foreign language formats, including many publications offered in Spanish.

DISCRETIONARY FUNDING

The President's fiscal year 2006 Budget request for NRCS reflects our ever-changing environment by providing resources for the ongoing mission of NRCS and ensuring that new opportunities can be realized.

Conservation Operations

The President's fiscal year 2006 Budget request for Conservation Operations (CO) proposes a funding level of $767.8 million, which includes $625.6 million for Conservation Technical Assistance (CTA). The CTA budget will enable NRCS to maintain funding for ongoing high-priority work. In addition, the President's Budget request includes an increase of $37.2 million for technical assistance to agriculture producers facing significant regulatory challenges. This budget initiative would be targeted toward animal feeding operations in need of Comprehensive Nutrient Management Planning (CNMP) assistance. The Budget request does not fund continuation of fiscal year 2005 congressional earmarks.

Mr. Chairman, for years we have stated that CTA is a program that is at the heart of everything our Agency does. But as an Agency, we have had a great deal of difficulty, up to this point, describing the program's scope and effect and providing clear guidelines to our frontline conservationists on its implementation.

I am pleased to report that NRCS was successful this year in issuing a formal program policy for CTA. For the first time in 70 years, CTA has the same kind of official program guidance and specific implementation framework as our other programs. We are also working to revise the allocations process for CTA in order to ensure that we reflect the values in the CTA program policy by placing our dollars where the needs are. It is key that allocations reflect natural resource conditions and the drive to meet our strategic planning objectives and accountability. Our aim is to have the new allocation formula in place upon enactment of the fiscal year 2006 Appropriations Bill.

We have made great strides in developing an effective accountability system with the support of Congress. This system has allowed us to accurately track our accomplishments and costs. As Undersecretary Rey outlined in his statement, this is the first budget that truly integrates an entire cycle in terms of utilization of our direct charge data. Based upon the current mechanisms in place for funding discretionary and mandatory program technical assistance, it is necessary to have sound data for workload in field offices. Our direct charge accounting, along with the workload assessment tools that we have in place, are providing the solid data to help us make program management decisions and to assist in the budget development process. For instance, with this data we can tell you that the cost of technical assistance per active participant in the Farm Bill Programs has decreased 13 percent from fiscal year 2002 to fiscal year 2005.

Watershed Surveys and Planning

The Watershed Surveys and Planning (WSP) account helps communities and local sponsors assess natural resource issues and develop coordinated watershed plans that will conserve and utilize their natural resources, solve local natural resource and related economic problems, avoid and mitigate hazards related to flooding, and provide for advanced planning for local resource development. This includes Floodplain Management Studies, Cooperative River Basin Studies, Flood Insurance Studies, Watershed Inventory and Analysis, and other types of studies, as well as Public Law 566 Watershed Plans.

Over 65 percent of these plans are used to guide local planning efforts. The other 35 percent guide experts and sponsors in the implementation of watershed projects to solve natural resource problems.

The President's fiscal year 2006 Budget proposes to focus funding on ongoing WSP efforts and includes $5.1 million to help approximately 40 communities complete their watershed planning efforts.

Watershed and Flood Prevention Operations

The Administration proposes to terminate funding for Watershed and Flood Prevention Operations (WFPO) in fiscal year 2006 for several reasons.

The Administration compared the benefits and costs of three Federal flood damage reduction programs operated by NRCS, the Corps of Engineers, and the Federal Emergency Management Agency.

The analysis found that the WFPO program provided the least net flood damage reduction benefits.

This decrease in funding in WFPO account will enable the Administration to divert limited resources to other priorities such as accelerating technical assistance to help agricultural producers meet regulatory challenges, particularly in the area of helping them to manage livestock and poultry waste.

Mr. Chairman, I would note that the projects that were earmarked for this program had funding requests that exceeded the amount appropriated, which has removed the Department's ability to effectively manage the program. The intense level of Congressional directives does not permit the Agency to prioritize projects based upon merit and local need. The fact that the program is entirely earmarked also makes it impossible for the Department to attempt to coordinate program efforts and implement work that will meet overall strategic natural resource goals.

Watershed Rehabilitation

The President's Budget funding request for fiscal year 2006 includes funding for Watershed Rehabilitation activities involving aging dams. These projects involve dams with a high risk for loss of life and property. To date, 134 watershed rehabilitation projects have been funded and 37 have been completed. Sixty-six dams have rehabilitation plans authorized and implementation of the plans is underway.

The Administration requests $15.1 million to address critical dams with the greatest potential for damage.

Resource Conservation and Development

The purpose of the Resource Conservation and Development (RC&D) program is to encourage and improve the capability of State, local units of government, and local nonprofit organizations in rural areas to plan, develop, and carry out programs for resource conservation. NRCS also helps coordinate available Federal, State, and local programs that blend natural resource use with local economic and social values. Over half of the 375 RC&D areas have received Federal support for at least 20 years. At this point, most of these communities should have the experience and capacity to identify, plan for, and address their local priorities. The President's fiscal year 2006 Budget, therefore, proposes to phase out Federal support for local planning councils after 20 years of funding assistance after which the local councils should have the capability to carry out much of the program's purpose themselves. The overall proposed budget for RC&D in fiscal year 2006 is $25.6 million.

FARM BILL AUTHORIZED PROGRAMS

Environmental Quality Incentives Program

The purpose of Environmental Quality Incentives Program (EQIP) is to provide flexible technical and financial assistance to landowners that face serious natural resources challenges that impact soil, water, and related natural resources, including grazing lands, wetlands, and wildlife habitat management. The budget proposes a level of $1 billion for EQIP.

Over the past year, NRCS fully implemented a new agency developed system, ProTracts, to speed up the processing of conservation contracts with farmers and ranchers. ProTracts, which came about as part of the West Texas Telecommunication Pilot, has allowed the Agency to streamline the contracts process and, for the first time, see the ongoing status of contracts, not just the payments. ProTracts allows program managers to manage payments and obligations for a portfolio of different contracts. We estimate savings of $5 to $10 million annually in administrative costs that can be used to get financial assistance to farmers to implement conservation programs. Because the contract process is now electronic instead of paper, it speeds up the time between contract application and approval. While reducing errors and omissions, NRCS worked with the Office of the Chief Financial Officer to link ProTracts to prior-year EQIP payments. The Agency is currently migrating and reconciling EQIP contracts.

Wetlands Reserve Program

Wetlands Reserve Program (WRP) is a voluntary program in which landowners are paid to retire cropland from agricultural production if those lands are restored to wetlands and protected, in most cases, with a long-term or permanent easement. Landowners receive fair market value for the land and are provided with cost-share assistance to cover the restoration expenses. The 2002 Farm Bill increased the program enrollment cap to 2,275,000 acres. The fiscal year 2006 Budget request estimates that about 200,000 additional acres will be enrolled in fiscal year 2006, an appropriate level to keep NRCS on schedule to meet the total acreage authorization provided in the Farm Bill.

I would note, Mr. Chairman, that on Earth Day last year, President Bush announced a new policy: "Instead of just limiting our losses (of wetlands), we will expand the wetlands of America." "No-net loss of wetlands" on the part of agriculture is a landmark achievement, and a testament to the kinds of investments made in wetlands conservation on private lands. I am proud that NRCS' wetland conservation efforts are at the core of this initiative, and I look forward to working with the Subcommittee toward achieving the goals.

Grassland Reserve Program

The 2002 Farm Bill authorized the Grassland Reserve Program (GRP) to assist landowners in restoring and protecting grassland by enrolling up to 2 million acres under easement or long term rental agreements. The program participant would also enroll in a restoration agreement to restore the functions and values of the grassland. The 2002 Farm Bill authorized $254 million for implementation of this program during the period fiscal year 2003-fiscal year 2007. Because we estimate that GRP will reach the statutory funding cap by the end of fiscal year 2005, the fiscal year 2006 Budget assumes that the program will have exhausted its funding and not be able to enroll new contracts next year.

Conservation Security Program

Conservation Security Program (CSP), as authorized by the 2002 Farm Bill, is a voluntary program that provides financial and technical assistance for the conservation, protection, and improvement of natural resources on Tribal and private working lands. The program provides payments for producers who practice good stewardship on their agricultural lands, and incentives for those who want to do more.

Last year, we conducted a successful program signup in 18 watersheds across 22 States. Nearly 2,200 farmers and ranchers entered contracts that covered 1.9 million acres of privately-owned land. We are now offering the program in 220 new watersheds across the country in addition to the 18 that were eligible in 2004. Each State has at least one participating watershed. The President's fiscal year 2006 Budget requests $273.9 million in program funding to continue to expand the program and enroll excellent conservation stewards.

Wildlife Habitat Incentives Program

Wildlife Habitat Incentives Program (WHIP) is a voluntary program that provides cost-sharing for landowners to apply an array of wildlife practices to develop habitats that will support upland wildlife, wetland wildlife, threatened and endangered species, fisheries, and other types of wildlife. The budget proposes a funding level for WHIP of $60 million.

FARM AND RANCH LANDS PROTECTION PROGRAM

Through the Farm and Ranch Lands Protection Program (FRPP), the Federal Government establishes partnerships with State, Local, or Tribal government entities or nonprofit organizations to share the costs of acquiring conservation easements or other interests to limit conversion of agricultural lands to non-agricultural uses. FRPP acquires perpetual conservation easements on a voluntary basis on lands with prime, unique, or other productive soil that presents the most social, economic, and environmental benefits. FRPP provides matching funds of no more than 50 percent of the purchase price for the acquired easements. The budget proposes a level of $83.5 million for FRPP in fiscal year 2006.

Measuring Outcomes not Outputs

One of the most common questions that I have answered during my tenure as Chief is about measuring the natural resource outcomes of NRCS efforts. Rightfully so, policy-makers, such as Members of this Subcommittee, as well as conservation and farm organizations, have voiced a need for better information about the kinds of changes in water and soil quality that are as a result of the investments we have made.

Six months ago, we launched an exciting endeavor to better quantify the on-the-ground effects of our conservation work. The Conservation Effects Assessment Project (CEAP) is a 5-year effort to better quantify the outcomes of our programs. Through CEAP, NRCS is partnering with the Agricultural Research Service (ARS), the National Agricultural Statistics Service (NASS), Farm Service Agency (FSA), and other agencies to study the benefits of most conservation practices implemented through the Environmental Quality Incentives Program, Wetlands Reserve Program, Wildlife Habitat Incentives Program, Conservation Reserve Program, and the Conservation Technical Assistance program. This project will evaluate conservation practices and management systems related to nutrient, manure, and pest management, buffer systems, tillage, irrigation, and drainage practices, as well as wildlife habitat establishment, and wetland protection and restoration.

CEAP will provide the farming community, general public, legislators, and others with a scientifically based estimate of environmental benefits achieved through conservation programs.

Conclusion

As we look ahead, it is clear that the challenges before us will require the dedication of all available resources—the skills and expertise of the NRCS staff, the contributions of volunteers, and continued collaboration with partners and Technical Service Providers.

I am proud of the dedicated work ethic our people exhibit day in and day out as they go about the work of getting conservation on the ground. We have achieved a great deal of success. We need to focus our efforts and work together, because available resources will ultimately determine whether our people have the tools to get the job done. I look forward to working with you as we move ahead in this endeavor.

This concludes my statement. I will be glad to answer any questions that members of the Subcommittee might have.

PREPARED STATEMENT OF GILBERT G. GONZALEZ

Mr. Chairman, Members of the Committee, it is a pleasure to present to you the fiscal year 2006 President's Budget request for USDA Rural Development.

I am honored to serve as Acting Under Secretary of Agriculture for Rural Development, and to have the opportunity to work with you to carry out Rural Development's fundamental mission to increase economic opportunity and improve the quality of life in rural America.

Everyday, we bring people and resources together. I believe that given the opportunity, Americans will create strength through investments in their own economic futures. And I believe it is our role at Rural Development to stimulate these efforts in ways that will maximize the benefits of local economies.

With the assistance of this subcommittee, the Bush Administration has established a proud legacy of accomplishments in rural areas, and will work to continue to enhance that legacy.

Overall, 800,000 jobs have been created or saved through combined business, housing, utility, and community development investments by USDA Rural Development over the last 4 years. Leveraging of these investments with private sector investments are helping to spur economic growth throughout rural America.

The Bush Administration has committed over $50 billion in rural development investments in the last 4 years to support rural Americans' pursuit of economic opportunities and an improved quality of life.

Rural Development delivers over 40 different programs enhancing business development, housing, community facilities, water supply, waste disposal, electric power, and telecommunications. Rural Development also provides technical assistance to rural families, and business and community leaders to ensure success of those projects. In addition to loan-making responsibilities, Rural Development is responsible for the servicing and collection of a loan portfolio that exceeds $87 billion.

Rural Development is the only Federal organization that can essentially build a town from the ground up through investments in infrastructure, homeownership and job creation through business development programs. We help rural Americans achieve their part of the American Dream, particularly the 60 million rural residents who are not involved in production agriculture.

Rural Development is a catalyst. We focus on our grassroots delivery mechanism, building partnerships that will act to strategically place Federal resources to serve as catalysts for spurring private investment. Partners in this effort include: the Department of Housing and Urban Development, the Department of Energy, the Environmental Protection Agency, the Minority Business Development Agency, the Small Business Administration, the Economic Development Administration, and the National Credit Union Association. In addition, we are working to increase the ability of faith-based organizations to partner with Rural Development to also support local community and economic development.

Successful economic development in rural areas is driven by local strategies, where communities take ownership and focus on developing leadership, technology, entrepreneurship, and higher education opportunities.

RESPONSIBILITIES

Rural Development provides rural individuals, communities, businesses, associations, and others with financial and technical assistance needed to increase economic opportunity and improve the quality of life in rural America. This financial and technical assistance may be provided solely by Rural Development or in collaboration with other public and private organizations promoting development of rural areas.

VISION

To realize our vision of creating greater economic opportunities and improved quality of life for rural citizens, we need to structure the delivery of Rural Development programs in a way that can ensure those who are most qualified become aware of our programs and receive needed investment assistance. Rural Development has to do a better job of outreach and education on what programs are available. To accomplish this goal, we have embarked upon an aggressive outreach and marketing effort that focuses on the programs appropriated, rather than on the names of individual agencies. This is a key priority that we believe will reduce confusion about who to contact for assistance and help ensure more efficient utilization of program investment dollars by those who are most qualified. We are also working to better communicate with minority sectors, analyze program delivery, and improve the overall knowledge of what USDA Rural Development can provide to rural citizens and communities.

RURAL DEVELOPMENT BUDGET REQUEST

The President's commitment to rural America is strong, and this request will support a total program level of loans and grants of $13.5 billion. Mr. Chairman, this Rural Development request is one component of the President's overarching budget. The budget reflects the difficult choices that had to be made among funding opportunities for a variety of meritorious programs.

Over the last 4 years (fiscal year 2001-fiscal year 2004) with your assistance, Rural Development has delivered over $50 billion in loans and grants to rural Americans. Through this infusion of infrastructure investment and local area income stimulus, many rural areas are attracting an increase in private sector investment. These Federal investments are being returned many times over in the form of increased local tax base and new private ventures, with their associated multiplier effects on household incomes and local quality of life.

I will now discuss the requests for specific Rural Development programs.

RURAL HOUSING PROGRAMS

The budget request for USDA Rural Development's housing programs totals just under $6.5 billion. This commitment will improve housing conditions, continue to promote homeownership opportunities for minority populations, and initiate our multi-family housing program revitalization initiative. Initially, this will put in place a program of tenant protection for our multi-family housing residents.

Rural Development's multi-family housing program includes about 17,000 properties and 470,000 units, with a loan portfolio value approaching $12 billion. Many of the properties exceed 20 years in age and face substantial rehabilitation needs. A substantial number of owners wish to prepay their loans and remove properties from the program. Rental assistance, a vital component of the program, has steadily risen. Faced with this reality, this Administration acknowledged the need to evaluate tenant protections, the portfolio, and program, and identify alternatives to ensure the program's long-term viability and continued supply of affordable rental housing in rural areas.

Last year, Rural Development engaged private industry experts to:

—Review and define potential approaches to protect tenants;
—Review issues and develop solutions directly pertaining to the market demand for such housing;
—Analyze and develop solutions for the increasing rehabilitation and recapitalization requirements of the aging existing properties; and
—Perform a comprehensive property assessment.

A statistically representative sample of the portfolio was selected and reviewed. Based on that review and analysis by outside experts and Rural Development staff, a comprehensive tenant protection and revitalization initiative is being developed. This budget reflects the first component of that initiative, which provides protection for the very low-income tenants residing in the projects. We are requesting $214 million to fund a rural housing voucher program, which will ensure that very low-income and elderly tenants are protected in the event of project prepayment.

A comprehensive legislative proposal is under development to protect tenants and address the issues of rehabilitation needs and prepayment. This proposal will embody the Administration's multi-year initiative to ensure adequate rental housing options remain available for very low-income rural residents and return the multi-family housing program to sound footing.

Pending the outcome of the comprehensive multi-family property assessment, Rural Development did not request funding for section 515 new construction. As a result of the study, we again are not requesting new construction; we are seeking $27 million in the section 515 program loan level for repair and rehabilitation only. New construction needs will be met through the section 538 guaranteed program, which we are requesting to double to a $200 million loan level.

We are also requesting rental assistance of $650 million to support needed renewals, preservation, and a farm labor housing program level comprised of $42 million in loans and $14 million in grants. Rental assistance contracts should be maintained at the current 4 year term to underscore our commitment to our private partners that future rental assistance income streams will be supported.

The request for single-family direct and guaranteed homeownership loans approaches $5 billion, which will assist about 40,400 rural households who are unable to obtain credit elsewhere. In addition, $36 million is requested for housing repair loans and $30 million for housing repair grants, which will be used to improve existing single family houses mostly occupied by low-income elderly residents.

The community facilities request totals $527 million, including $300 million for direct loans, $210 million for guaranteed loans, and $17 million for grants. It is expected that a portion of the direct loan program will continue to support homeland security and health and safety issues in rural areas. Community facilities programs finance rural health facilities, childcare facilities, fire and safety facilities, jails, education facilities, and almost any other type of essential community facility needed in rural America. Rural Utility Programs

USDA Rural Development provides financing for electric, telecommunications, and water and waste disposal services that are essential for economic development in rural areas. The utilities program request exceeds $5 billion, which is comprised of $2.5 billion for electric loan programs, $669 million for rural telecommunication loans, $25 million for distance learning and telemedicine grants, $359 million in loans for broadband transmission, over $1 billion for direct and guaranteed water and waste disposal loans, $377 million for water and waste disposal grants, and $3.5 million for solid waste management grants.

The Rural Telephone Bank (RTB) was established in 1971 to provide a supplemental source of credit to help establish rural telephone companies. Efforts have been underway to privatize the bank. In fiscal year 1996, the RTB began repurchasing Class “A” stock from the Federal government, thereby beginning the process of transformation from a federally funded organization to a fully privatized banking institution. However, recent analysis has shown that there are private lenders available to fulfill rural telecommunications lending needs. In addition, funding for this program has exceeded demand.

In fact, there is about $300 million in unadvanced loan balances for loans available for 5 years or more. This indicates that there is little demand for a privatized RTB. The fiscal year 2006 budget reflects the Administration’s proposal to establish the process and terms to implement dissolution of the RTB. Dissolution will result in the government being repaid for all outstanding government stock and the borrower receiving a cash payout for their outstanding stock. Additional funds are requested for the regular telecommunications program to maintain and enhance the level of Federal support available to rural telecommunications. The fiscal year 2006 budget proposes $359 million in new discretionary program funding. This, coupled with $1.6 billion in carryover funds, will provide for almost a $2 billion program level.

RURAL BUSINESS-COOPERATIVE PROGRAMS

Since fiscal year 2001, USDA Rural Development has provided about $4 billion for rural business development in the form of loans, grants and technical assistance. Funds assisted with the start up, expansion or modernization of businesses and cooperatives in rural areas that have helped create or save over 56,400 jobs.

The Rural Development business and cooperative program budget request for fiscal year 2006 totals about $1.3 billion, the bulk of which is comprised of $900 million for the business & industry (B&I) loan guarantee program.

The rural business enterprise grant, rural business opportunity grant, economic impact initiative, and the empowerment zone and enterprise community programs have been included in the President’s new initiative to help strengthen American’s transitioning communities, while making better use of taxpayer dollars.

These grant programs will be consolidated and transformed into a new, two-part program: (1) The Strengthening America’s Communities Grant Program, a unified economic and community development grant program; and (2) The Economic Development Challenge Fund, an incentive program for communities, modeled after the Millennium Challenge Account.

We are requesting $34 million for the intermediary relending program, $25 million for rural economic development loans, $5.5 million for rural cooperative development grants, and $15.5 million of discretionary funding for the value-added producer grant program.

The $10 million of discretionary budget authority for renewable energy will support $286 million in guaranteed loans and $5 million in grants. This program will assist in fulfilling the President’s Energy Policy that encourages a clean and diverse portfolio of domestic energy supplies to meet future energy demands. In addition to helping diversify our energy portfolio, the development of renewable energy supplies will be environmentally friendly and assist in stimulating the national rural economy through the jobs created and additional incomes to farmers, ranchers, and rural small businesses. This is important for rural communities and our country’s ability to rely less on imported energy. The President is committed to this program and the benefits it holds for America.

During this Administration Rural Development has invested over $190 million in Bioenergy/Biomass ventures including $80 million in value-added and business ventures and $114 million in renewable energy utility upgrades and expansions. Under the Farm Bill section 9006, $44.9 million in grant funds have been provided for 281 applicants for wind power, anaerobic digestion, solar, ethanol plants, direct combustion and fuel pellet suppliers, and other bioenergy related systems.

ADMINISTRATIVE EXPENSES

Delivering these programs to the remote, isolated, and low-income areas of rural America requires administrative expenses sufficient to the task. From fiscal year 1996 through fiscal year 2004, Rural Development’s annual delivered program level increased by 111 percent. Over that same period, Rural Development’s Salaries and Expenses (S&E) appropriation increased only 17 percent. In fiscal year 2001, Rural Development was able to deliver $19 program dollars (loans and grants, plus servicing the ever-growing portfolio) with one dollar of S&E. By fiscal year 2004, Rural Development delivered $23 program dollars with every S&E dollar. Over 4 years we were able to increase efficiencies, to deliver 21 percent more program dollars with each S&E dollar. Rural Development has the staff and the local distribution mechanism to meet the ambitious program targets outlined earlier, but adequate administrative support must be made available. To maintain our high level of efficiency requires continued improvements which must be based on continuous effort and investment of administrative resources.

With an outstanding loan portfolio exceeding $87 billion, fiduciary responsibilities mandate that Rural Development maintain adequately trained staff, employ state of the art automated financial systems, and monitor borrowers' activities and loan security to ensure protection of the public's financial interests. New, more sophisticated and complicated programs provided through the fiscal year 2002 Farm Bill (broadband, renewable energy, value-added, etc.), demand increasing technical expertise of our aging workforce.

Limited S&E funding could jeopardize our ability to provide adequate underwriting and loan servicing to safeguard the public's interests.

For fiscal year 2006, the budget proposes a total of $682.8 million for Rural Development S&E or an increase of $58.4 million over fiscal year 2004. Of this increase, $13.3 million will fund salary costs and related expenses; $20 million supports Information Technology (IT) needs, including the web farm and data warehousing, continued expansion and upgrading of systems supporting the evolving multi-family housing program, e-Gov, IT security, and essential licensing and maintenance agreements; $4 million for human capital investments, principally training; and $7.6 million to continue relocation of facilities and operations from downtown St. Louis, Missouri.

Mr. Chairman, Members of the Committee, this concludes my formal statement. We would be glad to answer any questions you may have. Thank you for the opportunity to appear before you to discuss the Rural Development fiscal year 2006 budget request.

PREPARED STATEMENT OF RUSSELL T. DAVIS, ADMINISTRATOR, RURAL HOUSING SERVICE

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to present the fiscal year 2006 President's budget for the USDA Rural Development rural housing programs.

As an integral part of Rural Development, the rural housing program assists rural communities in many fundamental ways. We provide a variety of both single and multi-family housing options to residents of rural communities. We also help to fund medical facilities, local government buildings, childcare centers, and other essential community facilities. Rural Development programs are delivered through a network of 47 State offices and approximately 800 local offices.

The proposed budget for the rural housing program in fiscal year 2006 supports a program level of approximately $6.49 billion in loans, loan guarantees, grants, and technical assistance. It also maintains the Administration's strong commitment to economic growth, opportunity, and homeownership for rural Americans. We believe that our efforts, combined with the best of both the non-profit and private sectors, will ensure that this budget makes a tremendous difference in rural communities. The fiscal year 2006 budget also includes a major initiative to revitalize the rural rental housing programs.

Let me share with you how we plan to continue improving the lives of rural residents under the President's fiscal year 2006 budget proposal for our rural housing programs.

MULTI-FAMILY HOUSING PROGRAMS

The Multi-Family Housing (MFH) budget preserves Rural Development's commitment to maintaining the availability of affordable housing for the many rural Americans who rent their homes. Our existing portfolio provides decent, safe, sanitary, and affordable residences for about 470,000 tenant households.

The total program level request is $1.16 billion. This represents an increase of 30 percent from last year's request. Six hundred and fifty million dollars will be used for rental assistance (RA) for contract renewals, farm labor housing, and preservation. These funds will renew more than 46,000 4-year RA contracts. We estimate using $27 million for MFH direct loans to meet our preservation responsibilities including prepayment prevention incentives.

Revitalization Initiative

In November 2004, we released a report titled the "Multi-Family Housing Comprehensive Property Assessment and Portfolio Analysis." This report analyzed the issues associated with the preservation of the portfolio and provided recommendations for changes to the MFH program. The fiscal year 2006 budget addresses the immediate need to provide assistance for tenants of projects that prepay and leave the program. Included is $214 million for the initial stage of the multi-family housing Revitalization Initiative that establishes a tenant protection program. Later this year, the Administration will propose legislation to ensure that projects remain in the program and that they are properly maintained. The authority to make rural housing vouchers is contained in the Housing Act of 1949. Regulations will need to be developed in order to use this authority.

The report recommended three primary strategies to revitalize our aging portfolio, which continue to play a critical role in delivering affordable rental housing to rural communities across the nation:

Allowing Prepayment While Protecting Tenants

While a significant segment of the portfolio has the legal right to prepay, the report concluded that prepayment is economically viable for only about 10 percent of owners. Recent court decisions require that owners of projects that are eligible to prepay under the terms of their loans, be allowed to do so. This would leave the tenants of these projects at risk of significant rent increase and potential loss of their housing. Therefore, we are proposing that all tenants of these projects be adequately protected through the use of housing vouchers.

Creating an Equitable New Agreement With Project Owners Electing to Stay With the Program

The report recommended that new agreements be reached with project owners to keep their projects in the program and, thus, be used for housing low income families. This new agreement would allow owners and project managers to exercise their entrepreneurial planning and management skills. Performance expectations and performance-based incentives would be provided so that high-performing owners and project managers are rewarded. Conversely, owners and property managers performing poorly would be subject to sanctions.

Using Debt Relief as the Primary Tool to Stabilize Projects at Risk of Physical Deterioration

The report also recommended that a majority of the existing MFH portfolio is in need of additional financial assistance to achieve long-term viability. The report recommended our using debt restructuring as the primary tool. Additional financial assistance would be provided in exchange for the owner's commitment to providing long-term affordable housing.

The Administration continues to evaluate the costs and benefits of various options to address items (2) and (3). We expect to complete this evaluation and to propose legislation later this year. However, the fiscal year 2006 budget includes $27 million for direct loans that are to be used to meet immediate revitalization needs.

We anticipate our revitalization efforts will span the next several years and have initiated a demonstration program to test the viability of the revitalization concepts. In addition, we will be initiating a demonstration program for making loans through the use of revolving funds for preservation purposes, as provided for in the fiscal year 2005 Appropriations Act.

Section 538 Guaranteed Rural Rental Housing Program

The fiscal year 2006 budget request will fund $200 million in section 538 guaranteed loans, funds that may be used for new construction. The section 538 guaranteed program continues to experience ever-increasing demand, brisk growth, and is rapidly becoming recognized within the multi-family housing finance, development, and construction industry, as a viable conduit to facilitate the financing of housing projects. In fact, Rural Development received an overwhelming response to the latest Notice of Funding Availability with over 150 applications received.

In fiscal year 2004, we distributed more than $99 million in guarantees to fund housing projects with over $243 million in total development costs. The risk exposure to the government continues to be very low, as loan guarantees to total development costs are well under 50 percent. We also have a delinquency rate of zero. A "notice to proceed" was given to 44 applicants with an average loan guarantee request of $2.2 million and an average total development cost of $5.5 million. Thirty-five out of the 44 applications given the approval to proceed included the use of Low-Income Housing Tax Credits from the various State governments where the projects will be located.

Since inception of the program, the section 538 guaranteed program has closed 71 guarantees totaling over $171 million. The program also has an additional 89 loans in process and not yet closed, totaling over $352 million. The seventy one closed guarantees will provide over 4,200 rural rental units at an average rent per unit of approximately $500 per month.

The rural housing program recently published a final rule to address program concerns from our secondary market partners and make the program easier to use and understand. We look forward to administering the fiscal year 2006 proposed budget of $200 million, which will enable Rural Development to fund a significant number of additional guaranteed loan requests.

The fiscal year 2006 budget also request funds $42 million in loans and $14 million in grants for the Section 514/516 farm labor housing program, $2 million in loans for MFH credit sales, and $10 million for housing preservation grants.

SINGLE FAMILY HOUSING PROGRAMS

The Single Family Housing (SFH) programs provide several opportunities for rural Americans with very low- to moderate-incomes to purchase homes. Of the $4.7 billion in program level requested for the SFH programs in fiscal year 2006, $3.7 billion will be available as loan guarantees of private sector loans, including $207 million for refinancing more affordable loans for rural families. Also, with $1 billion available for direct loans, our commitment to serving those most in need in rural areas remains strong. This level of funding will provide homeownership opportunities for 40,400 rural families.

Effective outreach and an excellent guarantee, coupled with historically low interest rates have increased the demand for the section 502 guaranteed program. Approximately 2,000 lenders participate in the guaranteed SFH program. The competitive low-interest rate environment has enabled the rural housing program to serve low-income families that would typically receive a Section 502 direct loan with a guaranteed loan instead. In fiscal year 2004, approximately 32 percent of guaranteed loans were made to low-income families.

Section 523 Mutual and Self-Help Housing

The President's fiscal year 2006 budget requests $34 million for the mutual and self-help housing technical assistance program.

The fiscal year 2004 ended with over $35 million awarded for contracts and 2-year grants. There were 39 "pre-development" grants awarded in fiscal year 2004, including many first-time sponsors, several faith-based groups, and groups in States with no self-help housing programs. Pre-development funds may be used for market analysis, determining feasibility of potential sites and applicants, and as seed money to develop a full-fledged application. Groups in the pre-development phase typically need 6 to 12 months before they are ready to apply for full funding.

The fiscal year 2006 proposed budget also includes $36 million in program level for home repair loan funds and $30 million for grants to assist elderly homeowners. It also includes $5 million in loan level for each of two site loan programs, $10 million in loan level for sales of acquired properties, and $1 million for supervisory and technical assistance grants.

COMMUNITY PROGRAMS

The Community facilities budget request will provide essential community facilities, such as educational facilities, fire, rescue, and public safety facilities, health care facilities, and child care centers in rural areas. The total requested program level of $527 million includes $300 million for direct loans, $210 million for loan guarantees, and $17 million for grants.

In partnership with local governments, State governments, and federally recognized Indian tribes, the fiscal year 2006 budget will support more than 240 new or improved public safety facilities, 105 new and improved health care facilities, and approximately 80 new and improved educational facilities to serve rural Americans.

In fiscal year 2004, we invested over $130 million in 113 educational and cultural facilities serving a population totaling over 3.3 million rural residents, over $97 million in 338 public safety facilities serving a population totaling over 1.7 million rural residents, and over $304 million in 141 health care facilities serving a population totaling over 3.2 million rural residents. Funding for these types of facilities totaled $531 million. The remaining balance was used for other essential community facilities such as: food banks, community centers, early storm warning systems, child care centers, and homeless shelters.

PROGRAM HIGHLIGHTS

I am pleased to provide you with an update on several highlights from our major programs, as well as key initiatives being undertaken.

Rental Assistance

We have continued to improve the internal controls in the Rental Assistance (RA) program and plan to implement a number of new initiatives in this regard with the recent publication of a comprehensive revision of our regulations. The new initiatives include an increased emphasis on verification methods and procedures for certifying income reported by tenants and improving management of tenants with no reported income. We are currently in discussions with the Department of Health and Human Services concerning USDA receiving access to the National Directory of New Hires database. This will enable us to match the data in the national directory against the information provided by the tenant, and therefore reduce fraud and abuse within the program. Additional training of borrowers and property managers will also be the key to reducing errors when certifying tenants for residency in MFH properties.

The automated RA forecasting tool is now in place and operational. The forecasting tool was used to develop the fiscal year 2006 RA budget and is able to forecast when RA contracts will either exhaust funds or reach their 4-year term limit. The forecasting tool can also develop the cost of new contracts based on an actual RA usage rate or a selected inflation rate. The fiscal year 2006 RA budget, an inflation rate of 2.4 percent was used, as recommended by the General Accounting Office. We will continue to provide State offices with additional guidance on the transfer of RA units and will centralize the redistribution of unused RA.

Automation Initiatives

Last year, we reported that the rural housing program was developing a data warehouse for MFH and SFH loans to improve our reporting capabilities. I am pleased to report that we are currently utilizing our data warehouses, making needed improvements, and training staff on how to expand their reporting capabilities. Our Multi-Family Information System (MFIS) database is now in Phase 5 of development, following a very successful completion of Phase 4, which integrated electronic debiting and crediting of borrowers accounts and eliminated funds handling in area offices. We now have a website available to the public to locate all MFH properties, with property and contact information. Also implemented is the Management Agent Interactive Network Connection (MAINC), which allows property managers to transmit tenant and property data electronically to MFH via the Internet. This data goes directly into the MFIS database and the data warehouse.

Last year, we also reported that an Automated Underwriting System (AUS) was being developed that would allow lenders to input SFH customer application data, pull credit, and determine immediately whether the rural housing program would issue a commitment. The AUS should be fully operational by next winter.

In December 2004 our Centralized Servicing Center (CSC) in St. Louis, Missouri began the centralization of loss claims submitted by lenders under our SFH guaranteed program. As of September 30, 2004, CSC provided loss mitigation for approximately 110,000 guaranteed loans. CSC is also supporting the rollout of the Lender Interactive Network Connection (LINC), which is an Internet-based alternative for lenders to submit loss claims electronically. Centralization will improve efficiency, consistency, customer service to lenders, and provide better management data to program officials.

USDA'S FIVE STAR COMMITMENT TO INCREASE MINORITY HOMEOWNERSHIP

The rural homeownership rate continues to outpace the national rate. In 2004, it stood at 76.1 percent compared to the national rate of 69.2 percent. But, while rural America has the highest percentage of homeownership, we are committed to do more, particularly to assist more minority families in living the American Dream. For USDA's part, we developed a Five-Star Commitment to increase minority homeownership opportunities.

Reducing Barriers to Minority Homeownership

Origination fees can now be incorporated into the loan amount. Through reduction of such barriers the program guaranteed a total of $3.18 billion in loans in fiscal year 2004, a record for the program.

Doubling the Number of Self-Help Participants by 2010

Over 54 percent of the families who participate in this program are minorities. In fiscal year 2004, we helped over 1,100 families build their own home.

Increasing Participation by Minority Lenders Through Outreach

Rural Development offices across the country have developed a marketing outreach plan to increase participation in the guaranteed loan program by lenders serving rural minorities.

Promoting Credit Counseling and Homeownership Education—Critical to Successful Homeownership

Since the signing of an agreement with the Federal Deposit Insurance Corporation to promote and utilize their "Money Smart" training program, nearly 700 Rural Development field staff received training and will deliver the training to others. Over a third of our State offices have already made the Money Smart Program available to non-English speaking groups.

Monitoring Lending Activities to Ensure a 10 Percent Increase in Minority Homeownership

USDA has jointly developed with the Departments of Housing and Urban Development (HUD) and Veteran Affairs (VA) an internal tracking system to measure the success of each of the 53 States and territories we serve. Overall, the number of loans to minorities has increased by more than 1,000 per year—an increase of more than 12 percent.

Improving Successful Homeownership

We are also pleased to report our achievement in helping our customers remain successful homeowners. Rural Development has lowered its direct loan housing program gross delinquency rate by 35.6 percent and new loan delinquency rate by 61.8 percent over the past 5 years. As of today, our gross delinquency rate is 12.85 percent and the new loan delinquency rate is 1.92 percent. Our portfolio recently outperformed the delinquency rate for sub-prime mortgage loans as tabulated by the Mortgage Bankers Association's National Delinquency Survey.

To ensure that we were also providing a high level of customer service, a satisfaction survey was recently completed. This was our first independent homeowner survey and established a benchmark for customer satisfaction. The survey was conducted by an outside contractor and showed an average homeowner satisfaction rate of 8.6 on a scale of 1 to 10. The study used the J.D. Power 2004 home mortgage study to compare these results to the results of other organizations providing financial services. The J.D. Power survey includes such well known and respected major lending institutions as Bank of America, Wells Fargo, and Chase. The average satisfaction level for the organizations included in the survey is 7.2 with the highest rating going to USAA (a private mortgage corporation) at 8.6. USDA Rural Development is at the top of the list for customer satisfaction at 8.6 percent.

Rural Partners

In fiscal year 2006, we will continue to stretch the rural housing program's resources and its ability to serve the housing needs of rural America through increased cooperation with HUD and other partners. We are committed to working with these partners to leverage resources for rural communities. For example, we are working with HUD and expect to adopt their "TOTAL" scorecard, modified for SFH guaranteed loans. This cooperation between USDA and HUD will save time and money in system development. Additionally, Rural Development information technology staff and the CSC worked with HUD and VA to develop a one-stop web portal, www.homesales.gov, to market government homes for sale.

In our MFH program, HUD has been extremely helpful in sharing data for development of our Comprehensive Property Assessment and in providing knowledgeable, professional staff from their Office of Affordable Housing Preservation to consult with before making determinations on our rural portfolio. This eliminates duplicative work and ensures better consistency.

CONCLUSION

Through our budget, and the continued commitment of President Bush, rural Americans will have the tools and opportunities they can put to work improving both their lives and their communities. We recognize that we cannot do this alone and will continue to identify and work with partners who have joined with the President to improve the lives of rural residents.

I would like to thank each of you for your support of the rural housing program's efforts. I look forward to working with you in moving the fiscal year 2006 rural housing program budget forward, and welcome your guidance as we continue our work together.

PREPARED STATEMENT OF PETER THOMAS, ADMINISTRATOR, RURAL BUSINESS—COOPERTIVE SERVICE

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to present the fiscal year 2006 President's Budget for USDA Rural Development's business and cooperative programs.

This is my first opportunity to appear before you as administrator of the rural business and cooperative programs USDA Rural Development. I am honored to serve in this position, and to have the opportunity to work with you to carry out Rural Development's fundamental mission to increase economic opportunity and improve the quality of life in rural America. Everyday, we bring people and resources together.

Mr. Chairman, the programs and services of Rural Development, in partnership with other public and private sector businesses, continue to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs. Rural Development programs help close the gap in opportunity for under-served rural areas and populations, moving them toward improved economic growth by providing capital, technology, technical assistance, and an improved quality of life. The $1.279 billion program level requested in this budget for the rural business and cooperative programs will assist in creating or saving 56,400 jobs.

BUSINESS PROGRAMS

Business and Industry Guaranteed Loan Program

For the business and industry (B&I) program, the fiscal year 2006 budget includes $44 million in budget authority to support $900 million in guaranteed loans. We estimate that the funding requested for fiscal year 2006 will create or save about 24,560 jobs and provide financial assistance to 489 businesses. Through the lender's reduced exposure on guaranteed loans, they are able to meet the needs of more businesses at rates and terms the businesses can afford. B&I guaranteed loans may also be used by individual farmers to purchase cooperative stock in a start-up or existing cooperative established for value-added processing.

I would like to share a story to illustrate how our programs work together to assist rural businesses. Unicep Packaging, Inc. is located in City of Sandpoint, Idaho. The area has been affected by the decline in the logging industry and has an increasing reliance on the tourism industry for its economic base in addition to light manufacturing.

Dr. John Snedden started his business in 1990 in a Sandpoint business incubator. In 1995, with the help of a USDA Rural Economic Development Loan made through Northern Lights, Inc., the electric cooperative in the Sandpoint area, the company constructed its initial 9,500 sq. ft. manufacturing plant, becoming the first company to "graduate" from the incubator. The business' original focus was manufacturing professional tooth whitening products. Since then it has shifted to unit-dose packaging and expanded its product lines and manufacturing capacity to include custom packaging and contract manufacturing for medical, dental, pharmaceutical, cosmetic, nutraceutical, and industrial customers.

The B&I guaranteed loans of $2,150,000 to Unicep Packaging, Inc. and $2,410,000 to Dr. John and Mary Jo Snedden financed a major expansion completed in 2003, with the manufacturing facility now encompassing 64,000 square feet. Dr. Snedden and his wife own the land and building and lease the property to their business, Unicep Packaging, Inc. Originally projected to create 62 additional jobs, the expansion has resulted in the creation of 68 jobs. In addition, the project has saved 58 jobs. On November 10, 2004, Unicep Packaging, Inc., received the Business of the Year award from the Bonner County Economic Development Corporation (BCEDC).

Intermediary Relending Program

The fiscal year 2006 budget includes $14.7 million in budget authority to support $34 million in loans under the intermediary relending program (IRP). The proposed level of funding will create or save an estimated 26,172 jobs over the 30-year period of this year's loans.

Participation by other private credit funding sources is encouraged in the IRP program, since this program requires the intermediary to provide, at a minimum, 25 percent in matching funds. To illustrate the benefits IRP provides to rural America, I would like to share with you a success story from rural Maine.

Wrabacon, Inc. was established in 1986 to design and build food and drug packaging systems for customers throughout the United States. It is located in a rural community with a population of less than 6,000 and a 5.8 percent state unemployment rate and a 7.1 percent town unemployment rate. Wrabacon, Inc. employs about 13 highly skilled engineers and technicians with an annual payroll in excess of $600,000. The economic slow-down of 2001 had a deep effect on the company's sales and cash flow. Recently, with the economic recovery, the company is experiencing increased orders and sales.

Using IRP funds received from Rural Development, the Kennebec Valley Council of Governments provided a $150,000 gap loan to bring Wrabacon's accounts payable under control and to fund a part of the company's operations. As a result of the loan, Wrabacon was able to approach a commercial lender and received a $245,000 line of credit. The combination of financing tools enabled Wrabacon to obtain needed working capital, continue its growth, and maintain its level of success. While retaining their existing employees, Wrabacon is now anticipating the construction of a 30,000 square foot addition to their existing facility for storage and expanded manufacturing. This is expected to produce an additional 10 to 15 new jobs.

Rural Business Enterprise Grant Program and Rural Business Opportunity Grant Program

No funding is requested for the rural business enterprise grant and rural business opportunity grant programs. For grants like these that are for community organizations to stimulate economic development, the President's fiscal year 2006 Budget proposes to consolidate them into a new economic and community development program to be administered by the Department of Commerce. The new program would be designed to achieve greater results and focus on communities most in need of assistance.

Rural Economic Development Loan and Grant Programs

The fiscal year 2006 budget includes $25 million in rural economic development Loans (REDL) and $10 million in rural economic development grants (REDG). These programs represent a unique partnership, since they directly involve an Rural Development electric and telecommunications borrower in community and economic development projects. We provide zero-interest loans and grants to intermediaries, who invest the funds locally. The return on our equity from rural America is strong.

The following is an example of how one REDLoan was utilized to expand capacity and create jobs with higher than average wages in Kentucky. P.J. Murphy Forest Products Corporation received a $250,000 loan through the South Kentucky Rural Electric Cooperative Corporation. The family owned business, located in Bowling Green, produces bedding for laboratory animals and wood flour which is used as filler in the plastics industry. Demand for the company's products exceeded its production capacity. The company built a new facility in Wayne County, a designated Empowerment Zone, with an unemployment rate of 6.6 percent at the time of the loan, as compared to the national unemployment rate of 6 percent at the time of the loan. The $250,000 loan will be used to purchase new equipment for the new facility. By locating the new facility in the Empowerment Zone, the company will reduce its transportation and shipping costs and create up to 15 new jobs in Wayne County. These new jobs are expected to pay up to 1.8 percent above the current average per capita income for the county, demonstrating the Administration's commitment to increasing economic opportunities in isolated rural areas.

Renewable Energy Grants Program

The fiscal year 2006 budget for the renewable energy systems and energy efficiency improvements program proposes $10 million of budget authority to support a $5 million grant program and a $286 million guaranteed loan program. Fiscal year 2006 will be the first full year of implementation of this combined loan and grant program. We anticipate publishing a final rule to implement the program on a permanent basis by August 2005. To date, we have relied on annual notices of available funding, a procedure that is generally limited to grant making.

These programs support the President's Energy Policy by helping to develop renewable energy supplies that are environmentally friendly. In addition, they contribute to local rural economies through the creation of jobs and the provision of new income sources to rural small businesses, farmers, and ranchers. We anticipate 292,000 households will be served, and 3 million-kilowatt hours of energy generated while reducing greenhouse gasses by 6.3 metric tons.

In fiscal year 2004, for example, a $10,000 grant was provided to a farmer in Cassia County, Idaho. The farmer purchased and installed a 20kW wind turbine which began producing power in June of 2004. The turbine produces power that is sold to Idaho Power. It also is expected to supply the majority of the power consumed by the farmer's farm machinery repair shop as well as his residence. The program directly supports the President's goals of decreasing reliance on foreign oil, increasing the use of renewable energy, and reducing toxic emissions into the atmosphere.

COOPERATIVE PROGRAMS

The cooperative form of organizational governance continues to be a cornerstone of business development in our rural communities. From the large agricultural marketing cooperatives that bring additional value to its members' products, to the small rural telephone cooperative that brings broadband technology to its community's businesses and residents, cooperative organizations provide our rural residents with new and exciting job opportunities, enhanced educational and health care opportunities, and the products and services that enable viable rural communities to compete with their urban and suburban counterparts.

The participatory, self-help foundation upon which cooperative organizations are based is evidence of the very grass roots effort that made our Nation great and continues to serve our rural communities well. The mission of Rural Development's cooperative programs is "to promote the understanding and use of the cooperative form of business as a viable organizational option for marketing and distributing agricultural products." Cooperative program staffs successfully carry out their mission by providing an array of educational and technical assistance, research, and funding services to cooperatives, their members, directors, and managers. Cooperative program staffs identify and respond to the opportunities and challenges facing rural cooperatives and agricultural producers, with a special emphasis on helping its cooperative clientele adjust to the continually changing economic forces in which they operate and compete in today's global marketplace. The cooperative programs are relatively modest in size, yet provide opportunities to encourage farmers and rural residents to organize cooperatives as a way to expand their income base.

Value-Added Producer Grant Program

For fiscal year 2006, the budget requests $15.5 million for the value-added producer grant program. The value-added producer grant program encourages independent agricultural commodity producers to further refine or enhance their products, thereby increasing their value to end users and increasing the returns to producers. Grants may be used for planning purposes such as conducting feasibility analyses or developing business plans, or for working capital accounts to pay salaries, utilities and other operating costs. Program revisions were made in fiscal year 2005 that target grant funds to smaller, more economically challenged independent producers. In so doing, not only is Rural Development poised to infuse capital to meet rural America's most critical needs, but it is able to assist more producers by funding additional projects. With this budget request, Rural Development will be able to fund approximately 60 projects.

The successful blending of modern technology with age-old tradition is evident in Northern Iowa and Southern Minnesota where Amish dairy farmers are producing and marketing blue cheese. With a $500,000 value-added producers grant for marketing expenses, the Golden Ridge Cheese Cooperative was able to turn a first place tie at the American Cheese Society's 2004 contest into a profitable business opportunity. After winning for its Schwarz und Weiss natural rind blue cheese at one of world's most prestigious contests for specialty cheeses, "Cheese is now flying out of here." Forming a cooperative to produce cheese in a modern plant was a difficult decision for the group because Old Order Amish do not use modern machinery. However, the group went forward with the modern cheese plant in order to preserve their way of life for their families to enjoy. The plant now uses about 5,000 pounds of milk a day that is purchased from the cooperative members and processed into the Schwarz und Weiss cheese, as well as two other brands of blue cheese. The plant employs about 20 full-time staff.

Since the passage of the Farm Bill in 2002, funding for the Agricultural Marketing Resource Center (AgMRC) has been set at 5 percent of the funding made available to the other value-added programs. Therefore, $775,000 of the $15.5 million budget request will fund the AgMRC's activities. AgMRC is an electronically based information center that creates, processes, analyzes, and presents information on value-added agriculture. The center is housed at Iowa State University and has partners at Kansas State University and the University of California—Davis. The center provides producers, processors, and other interested parties with critical information necessary to build successful value-added businesses.

Rural Cooperative Development Grant Program

For fiscal year 2006, the budget requests $5.0 million for the rural cooperative development grant program. The rural cooperative development grant program provides funds to establish and operate centers for developing new cooperatives and improving the operations of existing cooperatives, with the primary goal of improving the economic conditions of rural areas. This program complements our national and State office technical assistance efforts by increasing outreach and developing feasibility studies and business plans for new cooperatives and assisting existing cooperatives in meeting the demands of today's ever-changing global economy. With this budget request, Rural Development will be able to fund additional 3 or 4 centers.

A rural cooperative development grant made in 2003 enabled a rural Missouri cotton growers' cooperative to participate in today's emerging global markets. With assistance from the Missouri Enterprise Business Assistance Center in Rolla, Missouri, Delta Fibers, located in Caruthersville, Missouri, was introduced to Porter Tech, a Mexican import company. After visiting the Delta Fibers site, officials from Porter Tech entered into an agreement with Delta Fibers and in the summer of 2004, Missouri cotton began shipment into Mexico.

Cooperative Research Agreements

For fiscal year 2006, the budget requests $500,000 for cooperative research agreements to encourage the study of those issues essential to the development and sustainability of cooperatives. Because so much of rural America's business endeavors are cooperatively formed, their continued success is critical for the continued sustainability of the Nation's rural communities. Through cooperative research agreements, Rural Development can continue to develop and maintain the information base vital for innovative, creative, and prudent decision making.

CONCLUSION

Mr. Chairman, and Members of the Subcommittee, this concludes my testimony for the Rural Development fiscal year 2006 budget for rural business and cooperative programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.

PREPARED STATEMENT OF CURTIS M. ANDERSON, ACTING ADMINISTRATOR, RURAL UTILITIES SERVICE

Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to present the fiscal year 2006 President's Budget for Rural Development utilities programs.

A strong rural America is important for a strong Nation. We consider the rural utilities programs an important part of the USDA Rural Development mission. Safe, affordable, modern utility infrastructure is an investment in economic competitiveness and serves as a fundamental building block of economic development. Changes in the landscape of rural America, along with developments in technology, and changes in market structure combined with an aging utility infrastructure is occurring in the electric, telecommunications and water sectors. Without the help of USDA Rural Development's rural utility programs, rural citizens face monumental challenges in participating in today's economy as well as maintaining and improving their quality of life.

The $40 billion RUS loan portfolio includes investments in 7,500 small community rural water and waste disposal systems and approximately 2,000 electric and telecommunications systems serving rural America. This local/Federal partnership is an ongoing success story. Eighty percent of the Nation's landmass continues to be rural, encompassing 25 percent of the population. For an economy to prosper, we need infrastructure investment to spur economic growth, create jobs and improve the quality of life in rural America.

ELECTRIC PROGRAM

The electric program budget proposes $6 million in budget authority to support a program level of $2.52 billion. The President's budget requests $920,000 in budget authority for a hardship program level of $100 million and over $5 million in budget authority for a $100 million program level for municipal rate loans. The direct Treasury rate loan program level is proposed to be $700 million provided for with a budget authority of $70 thousand. The guarantee of Federal Financing Bank (FFB) direct loans is proposed at a program level of $1.62 billion with no budget authority required. The FFB loans are made at the cost of money to the Federal Government plus one-eighth of a percent. As a result, no budget authority is required for this part of the FFB electric loan program. Over the past 4 years, we have eliminated most of the backlog of loan applications and we strongly believe that the President's budget request will meet the demand during the fiscal year 2006.

The electric program provides financing for rural electric cooperative to expand and upgrade the transmission and distribution systems needed to meet the demands of economic growth across our Nation.

ADVANCED TELECOMMUNICATIONS IN RURAL AMERICA

The area of rural telecommunications is the most rapidly changing aspect of rural utilities infrastructure. Job growth, economic development, and continued quality of life in rural America require access to today's high speed telecommunications.

At the forefront of our telecommunications program is the broadband program created by the 2002 Farm Bill. The broadband loan program is distinctive from all other lending programs within the agency's portfolio. Nearly half of the applicants are "start-up" companies with little, if any, history of doing business in this industry. In addition, two distinctly different characteristics are at play—competition (rather than a monopolistic environment) and multi-state businesses (rather than a single cooperative or independent company serving a single rural community). Very few of the applications are designed to serve a single rural community or even a small grouping of geographically close rural communities. Most are applications requesting to serve 50, 75, or in excess of 100 rural communities in multiple States. In these multiple community applications, the vast majority of the communities already have broadband service available in some of the proposed service area; in some instances, from more than one provider. As you can imagine, these factors contribute to increased review and processing efforts.

In fiscal year 2004, the agency made 33 loans totaling $602.9 million which will serve 535 communities. This means those communities are connected to global business opportunities, improved quality education and modern health care that was not available without those high speed telecommunications connections. Since 2001, telecommunications loan programs have provided funding to make available internet access to 1.3 million rural residents.

In order to balance fiduciary responsibility with mission delivery, USDA is focusing on "quality loans." A failed business plan translates not only into loss of taxpayer investment, but deprives millions of citizens living in rural communities of the technology needed to attract new businesses, create jobs, and deliver quality education and health care services.

Building on USDA's experience and local presence in serving rural communities, we bring a unique lending expertise that includes the tools necessary to examine, and provide solutions for, the financial and the technical challenges facing entities dedicated to serving rural America. This model has resulted in a lending agency with unprecedented success in our other programs and we are dedicated to bringing that same level of success to this program.

From the beginning, the President has recognized the importance of broadband technology to our rural communities. The President stated, ". . . we must bring the promise of broadband technology to millions of Americans . . . and broadband technology is going to be incredibly important for us to stay on the cutting edge of innovation here in America." The Bush Administration has been unwavering in its support for this and other programs that will revitalize and strengthen our rural communities.

Let me assure you that we are on track, we remain focused, and we will complete our mission. We must continue to balance fiduciary responsibility with mission delivery everyday. Our unique lending expertise—the marriage of financial and technical analysis—helps to maximize the success rate of borrowers' business models. We will strive to do our part for rural America in fulfilling the President's promise of bringing broadband service to millions of citizens.

TELECOMMUNICATIONS BUDGET

The fiscal year 2006 budget proposes a broadband loan program level of $359 million driven by $10 million in budget authority. This replaces the mandatory funding provided in the Farm Bill. In addition, $1.6 billion in unused loan authority that the Farm Bill provided remains available.

Included in the discretionary broadband loans is $30 million in direct 4 percent loans requiring $2.4 million in budget authority; $299 million in direct Treasury rate loans requiring $6.4 million in budget authority and $30 million in guaranteed loans requiring $1.1 million in budget authority.

In the regular telecommunications program, the fiscal year 2006 Budget calls for a program level of $669 million. Included is $145 million in direct 5 percent loans, $424 million in direct Treasury rate loans, and $100 million in Federal Financing Bank (FFB) direct loans guaranteed by RUS. All of this is driven by $212,000 thousand in budget authority.

The budget also reflects the Administration's commitment to resolve the complicated issues involving the administration of the Rural Telephone Bank by proposing dissolution. When the Rural Telephone Bank was created in 1971, there was no lender other than what was available through the USDA. However, there are now major lenders that provide a commercial source of rural telecommunications financing. In addition, funding for this program has exceeded demand. There are about $300 million in unadvanced loan balances for loans available for 5 years or more. Dissolution will result in the government being repaid for all outstanding stock and the borrowers receiving a cash payout for their outstanding stock. Since the Administration is recommending dissolution, the budget does not request any budget authority to support RTB lending for fiscal year 2006. To ensure that rural telecommunications providers have access to adequate levels of financing, the budget requests that the standard RUS telecommunications loan programs be increased by $175 million.

DISTANCE LEARNING AND TELEMEDICINE

Distance learning and telemedicine technologies are having a profound impact on the lives of rural residents. Helping rural schools and learning centers to take advantage of the information age and enabling rural hospitals and health care centers to have access to quality medical services only found in large hospitals, the distance learning and telemedicine (DLT) program pulls together the best of Federal assistance and local leadership.

The DLT grants are budgeted at $25 million, the same as Congress appropriated for fiscal year 2005. The Budget proposes to zero out the loan program, simply because the nature of the prospective applicants, schools and hospitals, have placed the ability to repay loans out of reach.

WATER AND ENVIRONMENTAL PROGRAMS

The water and environmental programs provide the most basic of infrastructure needs for rural citizens: clean, safe, affordable drinking water and ecologically sound waste disposal. No element is more vital to human life and dignity as clean, safe water. Rural communities are challenged to provide this vital service while facing increasing regulatory requirements and persistent drought conditions across a large area of the country.

The budget request seeks $449.6 million in budget authority for a program level of $1.455 billion in loans and grants. The proposed loan levels are $1 billion in direct loans and $75 million in loan guarantees for water and waste disposal programs. The direct loan program requires $69 million in budget authority. To augment the loan programs, the budget request includes $377 million in grants. In addition, the budget requests an additional $3.5 million in solid waste management grants.

SUMMARY

Rural utility infrastructure programs are interwoven in the fabric of USDA Rural Development programs. To provide safe, clean, water; modern communications; and reliable electric power means businesses can develop, homes can have light and heat, and markets can be opened to the rest of the world.

PREPARED STATEMENT OF JOSEPH J. JEN

Mr. Chairman, members of the Subcommittee, it is my pleasure to appear before you to discuss the fiscal year 2006 budgets for the Research, Education, and Economics (REE) mission area agencies of the USDA. I have with me today Deputy Under Secretary Rodney Brown, Administrator of the Agricultural Research Service (ARS) Edward Knipling, Administrator of the Cooperative State Research, Education, and Extension Service (CSREES) Colien Hefferan, Administrator of the Economic Research Service (ERS) Susan Offutt, Administrator of the National Agricultural Statistics Service (NASS) Ronald Bosecker, and Office of Budget and Program Analysis' (OBPA) Deputy Director for Budget, Legislative, and Regulatory Systems Dennis Kaplan. Each Administrator has submitted written testimony for the record.

Before addressing the fiscal year 2006 budget, I want to express my appreciation for the support received from Congress in our appropriations for fiscal year 2005. We fully understand the pressure the Congress, in addition to the Executive branch, is under to keep a tight reign on the budget and control the Federal deficit. As much as that was needed in developing the budget for fiscal year 2005, it is even more true for the fiscal year 2006.

As you know, the President is committed to cutting the Federal deficit in half over the next 5 years. Reducing the Federal deficit is critical for continuing the current strength of the economy. As Secretary Johanns said in his testimony before this subcommittee, "no department can opt out of helping in Federal deficit reduction. USDA must play its role as much as any department." In the same way, REE is not exempt from helping USDA achieve this government-wide goal.

The President's fiscal year 2006 budget proposes $2.320 billion for the four REE agencies, $347.2 million less than the fiscal year 2005 appropriations, and close to the fiscal year 2005 President's proposed budget of $2.403 billion. The importance of research in promoting a competitive and secure food and agriculture sector, safe food, and a healthy population, remains critical, even under constrained budgets. Recently at the Agricultural Outlook Forum, Secretary Johanns said, "Advances in science and technology have always been a part of our success and they will continue to be." The phenomenal increases in agricultural productivity over many decades in this country are the product of science and technology. The same can be said for the increasingly environmentally-friendly production practices used across the Nation. Much of the improvement in our food safety system can be attributed to research, and the recently released Dietary Guidelines for Americans 2005 are firmly based on up-to-date research findings. The bottom line is that science and technology are the foundation of the American food and agricultural system.

REE agencies are at the center of the research system, supporting the food and agricultural sector. They have a proud history over many decades of finding solutions to the challenges confronting farmers, ranchers, and others involved in agriculture, resulting in a high return on the Federal investment to our Nation, which enjoys a plentiful, affordable, and safe food supply. This remarkable history of success continues today, yielding new knowledge, technologies, statistics, and analysis for effectively addressing today's problems and building the scientific and technological foundation for addressing tomorrow's problems and opportunities.

However, high quality and relevant research cannot guarantee a successful, competitive food and agricultural sector. Natural events, market conditions, and resistance to the adoption of new technologies can be barriers to the translation of new knowledge and technology into business gains. At the same time, in the absence of such research, the food and agricultural sector runs the risk of losing its competitive edge in global markets.

A most notable example of addressing today's problems relates to the recent arrival of soybean rust on our shores. For some time scientists have been saying that this plant disease would inevitably arrive in the United States, carried by winds from South America where the disease has been residing for several years. REE agencies, their partners in other USDA agencies, the research and scientific community, State departments of agriculture, and soybean industry organizations, have been preparing for this anticipated event that became a reality last November in Louisiana. There are now 29 confirmed cases in nine States.

Effective management and control of soybean rust relies on early detection, correct identification, and proper and timely application of fungicides. Starting in 1998, REE agencies have played a critical leadership role with the ultimate goal of providing producers with effective disease management options. For example, ARS scientists have developed a real-time rapid detection test that has been adopted by the Animal and Plant Health Inspection Service (APHIS). It will provide a quick, easy and accurate means to detect soybean rust as part of a national surveillance system. CSREES has been at the forefront of training first detectors. In June of 2004, a regional soybean rust teleconference attracted nearly 1,000 participants who grow or service nine million acres of soybeans. CSREES, in collaboration with APHIS, has also been instrumental in establishing a National Plant Diagnostic Network of strategically located university-based laboratories that support APHIS laboratories, facilitating rapid and accurate detection.

In September 2004, ERS published an article on the economic risks of soybean rust in the United States in its publication, Amber Waves. The article indicated that the economic effects of the pathogen's entry into the United States could vary considerably, depending on growing conditions, the severity and spread of the disease, and producers' responses. This analysis presented policymakers and the soybean industry with information to make more informed decisions in responding to the detection of the soybean rust in 2004.

Similar to our work on soybean rust, the REE agencies and their partners in the research community are also collaborating effectively in genomics research. The future of agriculture is in genomics and related fields such as proteomics and functional genomics. Sequencing the genome of important agricultural plants and animals and learning about the functions of different genes and genetic markers hold the promise of a whole new generation of agricultural products that are nutritionally enhanced, disease resistant, and less dependent on fertilizers and herbicides. Genetic research is also central to the development of rapid diagnostic tests, such as the ones used by APHIS to identify avian influenza and exotic Newcastle disease.

Genomics is a prime example of research that takes years to complete and years to realize many of the benefits, but that fact makes it no less valuable. The ARS budget proposes an increase of $12.8 million for animal and plant genomics and related research and preservation of animal and plant genetic resources. Under CSREES' National Research Initiative (NRI), $11 million is proposed for agricultural genomics research focused on the maize and swine genomes.

Another pioneering research direction, such as nanotechnology, provides a new approach for addressing perennial challenges in agriculture and capitalizing on new possibilities. Nanotechnology refers to research and development at the atomic, molecular or macromolecular levels, in the length scale of approximately 1 to 100 nanometer range. The technology takes advantage of novel properties and functions of systems and structures because of their size. Already used in both the medical and environmental arena, we are only beginning to explore the promise this technology holds for agriculture. For example, it could be used to develop healthy and tasty foods and products that can be identified and tracked based on nanoscale bar codes. Eight million dollars of the proposed increase in NRI funding will be allocated to nanotechnology.

I would like to highlight three high priority programs in which the REE agencies have a major role that would be enhanced with additional funding in the President's proposed budget.

Food and Agriculture Defense Initiative.—The interagency Food and Agriculture Defense Initiative, now in its second year, focuses on strengthening the Federal Government's capacity to identify and characterize bioterriorist attacks. The USDA component specifically relates to protecting the food supply and agricultural production, protecting USDA facilities, and ensuring USDA staff preparedness for a potential event. The fiscal year 2006 budget provides increased program funding of $35 million and $26 million for ARS and CSREES, respectively, to expand their participation in this initiative. This investment is just another step in President Bush's commitment to protect homeland security.

The ARS increases will allow the agency to expand the National Plant Disease Recovery System designed to ensure that disease resistant seed varieties are continually developed and made available to producers in the event of a natural or intentional catastrophic disease or pest outbreak. The increased funds will also support the strengthening of ongoing ARS research on rapid response systems to selected agents, improved vaccines, and identification of genes affecting disease resistance.

A $59 million request in the ARS buildings and facilities account will complete the modernization of the National Centers for Animal Health in Ames, Iowa. This consolidated ARS and APHIS facility will house and support an integrated, multidisciplinary scientific capability, combining animal disease research with the development of diagnostic tools and vaccines. Including its biosecurity level two (BSL–2), BSL–3, and BSL–3 Ag spaces, the Centers will be a state-of-the-art facility, unique in the world.

The budget provides CSREES with $30 million, an increase of $21 million, to maintain and enhance the National Diagnostic Laboratory Network of public agricultural institutions that serves as a backup to APHIS' diagnostic laboratories for both animals and plants. The network is playing an important role in the detection and control of soybean rust and sudden oak death. The network laboratories are now in a position to do confirmatory tests of soybean rust at the county and farm level and are ready to detect and track the rust in the coming growing season. The diagnostic laboratory network has also been important in identifying sudden oak death on nursery stock before being sold to the public. The initiative also includes $5 million for a CSREES competitive program that would promote the training of food system defense professionals who are critically needed in securing our Nation's agricultural and food supply.

BSE Related Activities.—Bovine Spongiform Encephalopathy (BSE) continues to be a challenge for the livestock sector. While no new BSE has been detected in the United States since the first case in December 2003, two cases have been identified in Canada. Building on its current BSE and related prion research program, the budget provides ARS with an additional $7.5 million to further our scientific understanding of the disease and develop technology needed by regulatory agencies to establish science-based policies and control programs.

Nutrition Research and Education.—Concern continues regarding the epidemic of obesity in our Nation. Particularly disquieting is the incidence of obesity in children, estimated to be approximately 15 percent and essentially doubling between 1980 and 2000. At any age and for any group, the causes of obesity are many and complex. They include reduction in physical activity, greater reliance on convenience foods and restaurants, and more basically, the consumption of more calories. The reasons behind these behavior choices are complicated and not well understood. Moreover, without a better understanding of the drivers of these behaviors, it will be difficult to design effective types of interventions, such as education programs, public information announcements, or community campaigns, to help individuals and families achieve and maintain healthy weights.

USDA, with its food assistance, nutrition education, and nutrition research programs, plays an important role in promoting healthy nutrition and weight, in general, and in addressing the obesity, in particular. Contributing to the President's Healthier United States initiative, the fiscal year 2006 budget proposes increases for ARS, CSREES, and ERS that will strengthen the Department's capacity to address this major national health problem and associated issues. The increases will focus principally on gaining a better understanding of the factors influencing food consumption patterns and the development of effective interventions to promote healthy dietary choices and prevent obesity.

An ARS increase of $6 million will improve the accuracy and ethnic representation of "What We Eat in America," a component of the National Health and Nutrition Examination Survey (NHANES). This joint USDA/Centers for Disease Control and Prevention survey is the principal source of Nation-wide information on individuals' food consumption and associate health status. An additional $2.3 million will be used for nutrition research on obesity and nutrition survey research on the energy and nutrient content of food consumed by minority populations.

The CSREES increase of $7.5 million in the NRI will focus on understanding the environmental and social factors influencing behaviors leading to childhood obesity.

A $0.6 million increase in the ERS budget will support a behavioral economic research program to identify strategies for developing effective nutrition messages that motivate consumers to adopt more healthful diets.

The Expanded Food and Nutrition Education Program (EFNEP) in the CSREES budget works directly with low-income individuals to help them better manage food budgets, gain skills in safe food preparation, and improve their diets. The program has a very impressive track record of achieving positive, sustained behavioral changes related to food and diet. The fiscal year 2006 proposed budget provides EFNEP an increase of $4.5 million to $63 million, reaching a legislatively required funding level needed for the 1890 Land-Grant Institutions to participate in the program. The increase allows the program to reach more people in more counties.

Before turning specifically to the REE agency budgets, I would like to discuss a specific proposal found in the CSREES budget. The Administration strongly believes that competitive research programs provide the best mechanism for ensuring the allocation of funds to the highest quality projects. Consistent with this policy position, this year's CSREES budget proposes the redirection of funds from the Hatch and McIntire-Stennis formula research programs to competitively awarded grant programs over the next 2 years, and the reallocation of Animal Health research formula funds in fiscal year 2006. A new State Agricultural Experiment Station (SAES) Competitive Grants Program of $75 million will support the same types of research at Agricultural Experiment Stations that are currently supported by formula funds. The budget also proposes eliminating the cap on indirect costs for CSREES grants. Instead, the indirect cap for grants will be at a negotiated level for each institution, a practice consistent with most other Federal research grant programs.

Finally, all four REE agencies are currently initiating or strengthening a formal process framed by the criteria of relevance, quality and performance called for in the President's Management Agenda initiative on research and development programs. These agency processes are centered on reviews by external scientists that provide valuable objective insights and recommendations for the programs, as well as ratings that are used in the Program Assessment Rating Tool (PART) employed by the Office of Management and Budget under the President's Management Agenda. I am pleased to report that the three REE agency programs that were reviewed under the PART in fiscal year 2004 received scores of moderately effective, and we continue to improve agency performance measures as part of a larger effort to enhance the effectiveness of the REE programs.

REE AGENCY FISCAL YEAR 2006 BUDGETS

I would now like to turn briefly to the budgets of the four REE agencies.

Agricultural Research Service.—As the principal intramural biological and physical science research agency in USDA, ARS plays a critical role for the Department and the larger agricultural community in conducting research to develop new scientific knowledge and technologies to solve high priority agricultural problems of broad scope. It also is home to the National Agricultural Library (NAL), the Nation's major information resource in the food, agricultural and natural resource sciences. The fiscal year 2006 budget requests $1.1 billion for ARS. Within that total, $996 million is proposed for research and information programs, approximately $100 million less than was appropriated in fiscal year 2005. The $65 million proposed for buildings and facilities is principally directed to complete the modernization of the National Centers for Animal Health in Ames, Iowa.

The ARS budget proposes increases totaling $97 million for high priority program areas of national and regional importance, such as food safety, emerging and exotic diseases, BSE, human nutrition/obesity, genomics and genetic resources, and climate change. To offset these increases the budget proposes the elimination of approximately $175 million in Congressional earmarks and $28 million in other project terminations.

In addition to those previously described, the ARS budget proposes increases for controlling emerging diseases and invasive species affecting animals ($8.6 million) and plants ($17.7 million), a significant portion of which is included in the Food and Agriculture Defense Initiative. Targets for the fiscal year 2006 animal protection research program include developing systems for rapid response to selected agents and implementing a vaccine research program for control and eradication of biological threat agents. Plant protection research targets for fiscal year 2006 include developing and releasing to producers new varieties of plant stock with insect and disease resistance. An increase of $15.3 million in food safety research is proposed to develop surveillance, sampling, and detection methods to rapidly detect and identify foodborne pathogens as part of the Food and Agriculture Defense Initiative.

High energy prices, instability in petroleum exporting countries, environmental concerns, and the potential for new markets for agricultural products have generated great interest in the development of bioenergy. ARS continues to conduct research to generate scientific knowledge and technologies to support production of affordable bioenergy products. An increase of $2.5 million will be used to accelerate this bioenergy research and technology program, as well as other biobased products research. Fostering increased use of renewable fuels and decreasing our dependence on foreign oil is a key component of the President's energy plan.

Agricultural production is vulnerable to changes in climate, such as rising temperatures, changing amounts of precipitation, increased variability in weather, and increases in the frequency and intensity of extreme weather events. These environmental changes also offer opportunities for agriculture to help address the undesirable accumulation of greenhouse gasses. An increase of $3.2 million in the President's budget for the Climate Change Research Initiative will support research providing information on balancing carbon storage, emissions, and agricultural productivity in different agricultural systems across the Nation. In particular, the research will generate new knowledge on how to manage livestock, manures, fertilizers, biological nitrogen fixation, and soils to minimize emissions and increase sinks for greenhouse gasses. Other increases will support research on agricultural air quality ($0.9 million) and water protection and management ($0.9 million).

In the age of digital information, NAL is providing national leadership through the development of the National Digital Library of Agriculture. The requested increase of $1.9 million will allow NAL to enhance development and delivery of content for the digital library, as well as continue to integrate the AGRICOLA database into the digital library.

Advances in information technology (IT), including the ability to store and share information, are enabling agencies, such as ARS, to gain great efficiencies and collaborative power in conducting research. These advances, however, also make ARS' IT infrastructure more vulnerable to cybersecurity attacks. The safety of sensitive research information from unauthorized intruders is critical to the agency's research program. As part of the USDA Homeland Security request, the fiscal year 2006 budget proposes $3.6 million to strengthen ARS' cybersecurity program by increasing the number of cybersecurity officers and securing and implementing new cybersecurity tools.

Cooperative State Research, Education, and Extension Service.—The President's fiscal year 2006 budget provides just over $1 billion for CSREES. Compared to fiscal year 2005, the budget includes an increase of $38 million in on-going programs and the elimination of $181 million in unrequested increases. The Administration's request places a strong emphasis on increases in the REE mission area for Food and Agriculture Defense and peer-reviewed competitive grants. In providing critical funding for the research, education, and extension programs of the Land Grant system and other universities and organizations across the country, CSREES continues to play a central role in the generation of new knowledge and technology and the transfer of that knowledge and technology to producers and consumers.

As described above, the budget proposes shifting the research formula funds under the Hatch Act, Cooperative Forestry Research Program (McIntire-Stennis), and Animal Health and Disease Research programs to competitive programs over the next 2 years. The proposal for fiscal year 2006 redirects half of the Hatch and McIntire-Stennis funds and all of the Animal Health and Disease funds. State Agricultural Experiment Stations will be eligible to apply for grants under the new State Agricultural Experiment Station (SAES) Competitive Grants Program funded at $75 million. Other formula funds will be shifted to the NRI which would be funded at $250 million, an increase of $70 million over the fiscal year 2005 appropriation level. The details of the new SAES program will be developed by CSREES in consultation with the land grant institutions and other stakeholders.

Administration of research previously funded under the competitive 406 integrated program has been moved to the NRI and SAES Competitive Grants Program, where the same range of research will be supported. Finally, the budget proposes eliminating the current indirect cost cap for CSREES grants, currently set at 20 percent. Instead, the cap will be negotiated for each institution, following the standard practice of most other Federal competitive research programs. Lifting the cap responds to frequently voiced concerns that researchers in some institutions are discouraged from applying for NRI grants because the 20 percent cap does not cover true indirect costs to the grantee institution.

The NRI, the agency's flagship competitive program, continues to be a very valuable avenue for supporting cutting-edge research conducted by the finest scientists across the country. The $70 million increase in the NRI for fiscal year 2006 will support new research in genomics, nanotechnology for functional foods and food safety, and emerging issues in food and agricultural defense. The investment in food and agricultural defense will help fill critical knowledge gaps in real time or near real time rapid detection tests and monitoring surveillance systems of animal and plant disease. Extensive efforts are underway in several agencies to produce rapid, sensitive detection tools. However, their value relies on their being used correctly to help minimize the probability that animal disease outbreaks in the United States may spread widely before containment procedures begin. CSREES will support research that fills this critical knowledge gap on the use of these tests in real time or near real time detection and monitoring.

The budget calls for an increase of $1.5 million in the CSREES Graduate Fellowship Grant Program. Despite recent gains in support for minority-serving institutions and programs encouraging diversity in higher education and the workforce, the Nation faces chronic challenges in promoting human capital development that enables all citizens to realize their educational potential. The food and agricultural system would benefit from an expanded base of skilled scientists, technicians, and other professionals as the baby-boomers begin to retire. The proposed increase will allow CSREES to further expand the number of fellowships offered at the Master of Science level, essential for recruiting minority graduate students.

Economic Research Service.—ERS is provided $80.7 million in the President's fiscal year 2006 budget. As the Department's principal intramural economics and social science research agency, ERS conducts research and analysis on the efficiency, efficacy, and equity aspects of issues related to agriculture, food safety, human nutrition, the environment, and rural development. Its programs and products are shaped principally to serve key decision-makers who routinely make or influence public policy and program decisions.

The budget provides an increase of $5.8 million to continue the development of ERS's Consumer Data and Information System, a data and analysis framework of the post-farm gate food system. It is designed to identify, understand and track changes in food support and consumption patterns for use in policy decisions in the food, health, and consumer arenas. Fiscal year 2005 appropriations provided funds for implementing one component of the system, the Flexible Consumer Behavior Survey Module (FCBSM). The survey will be coordinated with the NHANES survey managed by the National Center for Health Statistics of the Centers for Disease Control and Prevention. in order to link data on individual's knowledge and attitudes about dietary guidance and food safety with data on food intake, dietary status, and health outcomes.

The increased funds will support a second component, a Rapid Consumer Response Module that will provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. The funds will also be used to create a Food Market Surveillance System of surveys and analyses to identify food consumption patterns and how consumers respond to changes in the food market place and in customers' lifestyles over time.

The data and analytical capacity made possible through the proposed Consumer Data and Information System is crucial to understanding the quickly evolving consumer-driven food and agricultural system. The information from this system will help producers and processors to continue competing effectively in domestic and global markets and will help policymakers to identify and develop strategies addressing nutrition and obesity issues at different levels of the food system.

National Agricultural Statistics Service.—NASS' budget requests $145.2 million, an increase of $16.7 million over fiscal year 2005. NASS' comprehensive, reliable, and timely data are critical to policy decisions, maintaining stable agricultural markets, and ensuring a level playing field for all users of agricultural statistics.

The budget provides $7 million for continuing a multiyear initiative begun in fiscal year 2004 to restore and modernize NASS' core estimates program to meet data users' needs with an improved level of precision. A second increase of $1.8 million will incrementally improve statistically defensible survey precision for small area statistics that are used by the Risk Management Agency and the Farm Service Agency in USDA, among others.

The Census of Agriculture, conducted by NASS, provides comprehensive data on the agricultural economy on a 5-year cycle. In the fiscal year 2006 budget, NASS is requesting an increase of $6.5 million to prepare for the 2007 Census, including finalizing, field testing and evaluating the questionnaire.

SUMMARY

In summary, I want to reinforce the message that, while developed within the context of the need to reduce the Federal deficit, the REE budget reflects a continuing commitment to investment in high priority agricultural research, statistics, education, and extension programs. As such, it supports the Federal commitment to solving today's problems and challenges faced by agricultural producers and to developing the knowledge and tools of cutting-edge science to address future problems and explore new scientific advances. This concludes my statement. Thank you for your attention.

PREPARED STATEMENT OF DR. EDWARD B. KNIPLING, ADMINISTRATOR, AGRICULTURAL RESEARCH SERVICE

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to present the Agricultural Research Service's (ARS) budget recommendations for fiscal year 2006. The President's fiscal year 2006 budget request for ARS' research programs is $996.1 million, a net decrease of $105.9 million from the fiscal year 2005 funding level. The budget recommends $87.9 million in new and expanded research programs which address the Nation's highest food and agriculture priorities. Nearly half of the increase requested, $42.6 million, is in support of the Federal Government's initiative to strengthen the Nation's homeland security. ARS homeland security research focuses on the areas of food safety, emerging and exotic diseases of animals and crops, and the National Plant Disease Recovery System. There are also new and expanded initiatives in critical research areas, such as Bovine Spongiform Encephalopathy (BSE), invasive species of animals and plants, and obesity. Other ARS program initiatives include research on genetics and genomics, biobased products and bioenergy, air and water quality, and climate change. The Agency is also requesting an increase of $9.3 million to finance pay costs required in fiscal year 2006.

The budget again proposes the termination of unrequested research projects and resources appropriated in recent years. The appropriations associated with the proposed project terminations total $203.1 million. The savings to be achieved through the proposed terminations will be redirected to finance the higher priority research initiatives proposed in ARS' budget, as well as to help reduce overall Federal spending.

The ARS budget also includes $64.8 million under the Buildings and Facilities account for the design, modernization, and construction of ARS facilities. In particular, the budget requests $58.8 million for the completion of the modernization of the National Centers for Animal Health at Ames, Iowa.

PROPOSED PROGRAM INCREASES

Food Safety ($15.3 million).—Ensuring the safety of the Nation's food supply is essential and vitally important to U.S. Homeland Security. Bioterrorism against our food supply would affect the health and safety of consumers and their confidence in the safety of the food they consume. It would also have far-reaching impacts on the country's economy, given that U.S. agriculture contributes over $1 trillion to the gross domestic product. ARS research will focus on assessing the vulnerabilities of the food supply, strengthening and expanding laboratory preparedness, and developing technologies that rapidly identify suspected food pathogens and toxins. ARS will work in these areas of prevention, detection, and response with the Food Safety and Inspection Service and other USDA agencies through programs such as the Collaboration for Animal Health and Food Safety Epidemiology.

Emerging and Exotic Diseases of Animals and Plants ($19.5 million).—The United States is increasingly vulnerable to emerging animal and plant diseases which could threaten the country's Homeland Security. The threat of new diseases—whether they are a result of bioterrorism or of naturally occurring epidemics—is an urgent and growing challenge to livestock producers. Bovine Viral Diarrhea in cattle, Porcine Reproductive Respiratory Syndrome in swine, and Marek's disease virus in chickens are examples of these exotic diseases. Harmful animal diseases introduced into the United States in recent years from foreign countries include Avian Influenza and Exotic Newcastle Disease. Brucellosis, Leptospiroris, and West Nile Virus are still other examples of zoonotic diseases that pose a threat not only to animals but to humans as well. Similarly, exotic and emerging plant diseases—wheat and barley rusts, citrus canker, and corn viruses—present a potential threat to the Nation. With the proposed increase, ARS will develop vaccines, intervention strategies, and diagnostics for the prevention, detection, identification, control, and eradication of biological threat agents. ARS will also strengthen its collaborative partnerships at the national and international levels to obtain access to essential agents and data.

National Plant Disease Recovery System ($4.2 million).—The emergence or spread of certain plant diseases, such as soybean rust, citrus variegated chlorosis, or bacterial wilt, could seriously harm America's agriculture. Recovery from a significant disease outbreak requires a national system to manage host/pathogen interactions and deploy resistant plant resources using cultural, biological, and chemical control strategies. Homeland Security Presidential Directive (HSPD–9) has charged ARS with the responsibility for leading this effort with the Cooperative State Research, Education and Extension Service (CSREES), the Animal and Plant Health Inspection Service (APHIS), and others. ARS will use the proposed increase to minimize the impacts of devastating crop diseases by documenting and monitoring plant diseases, developing germplasm and plant varieties with improved disease resistant characteristics, implementing integrated pest management approaches, and transferring genetic resources (i.e., disease resistant plant varieties) to its customers.

Bovine Spongiform Encephalopathy ($7.5 million).—BSE is a progressive, degenerative, fatal disease affecting the central nervous system of adult cattle. It is believed that eating contaminated beef products particularly from BSE-affected cattle causes a variant form of Creutzfeldt-Jacob Disease in humans. The first case of BSE was identified in the United States on December 23, 2003. We must discover the cause of BSE and develop diagnostic tools to protect the U.S. food animal industry and human health. The proposed increase will allow ARS scientists to enhance the implementation of a national, coordinated research program (with European scientists and others) in BSE pathogenesis, diagnostics, and intervention.

Invasive Species ($6.8 million).—The security of the U.S. livestock and poultry industries is threatened by the emergence of animal parasites. Of particular concern is the worldwide emergence of drug resistant nematodes and protozoa. Plants are also at risk. Sudden Oak Death has had negative effects on California's plant nurseries. Salt Cedar and Yellow Starthistle (invasive weeds) have caused agricultural and environmental damage in several western States. Lobate Lac Scale, Asian Longhorned Beetle, and Emerald Ash Borer (invasive insects) have caused damage to a wide range of plant species. ARS will use the proposed increase to target its research on controlling Sudden Oak Death, Salt Cedar, Yellow Starthistle, Lobate Lac Scale, Asian Longhorned Beetle, and Emerald Ash Borer. It will also develop control technologies for invasive drug resistant nematodes and protozoa of livestock and poultry. These new technologies will help facilitate trade of U.S. commodities and reduce the risk of new harmful species being inadvertently introduced into the United States.

Geonomics ($9.2 million).—Genomics holds the key to maintaining America's agricultural competitiveness in global markets. Advances in genomics research can improve the production and quality of food products, prevent animal and plant diseases, and produce foods which are richer in nutrients. ARS needs to continue its work on characterizing, identifying, and manipulating the useful properties of genes and genomes. In this regard, ARS will use the proposed increase to identify genes that influence animal and plant growth and quality, disease resistance, and other economically important traits. ARS will continue to coordinate its genomics research with NIH's National Human Genome Research Institute, CSREES, and the National Science Foundation.

Genetic Resources ($3.6 million).—The rate of extinction of lines and strains of food animals and plants is rapidly accelerating. The Nation needs a more comprehensive program to maintain threatened germplasm to prevent the loss of genetic diversity. An adequate supply of useful genes is essential in the event of bioterrorism or other crises (e.g., Foot and Mouth Disease, Exotic Newcastle Disease, etc.). With the proposed increase, ARS will enhance its ability to collect, identify, characterize, and incorporate plant germplasm into centralized gene banks. The additional funding will help sustain ARS' National Plant Germplasm System repositories. The additional funding will also enable further development of cryopreservation technologies for the long-term storage of important animal germplasm (i.e., of poultry, aquaculture, cattle and swine).

Human Nutrition/Obesity Research ($8.3 million).—Obesity is one of this country's fastest growing public health problems. It contributes to heart disease, cancer, diabetes, and other illnesses resulting in hundreds of billions of dollars in health care costs each year. Understanding food consumption trends and the factors that influence dietary choices is critical for developing strategies for preventing and mitigating obesity. ARS will use the proposed increase to conduct nutrition surveys and research to prevent obesity in children, middle-aged adults and others.

Biobased Products/Bioenergy Research ($2.5 million).—Soaring energy prices, environmental concerns, and depressed agricultural commodity prices highlight the need to develop alternative domestic sources of energy. In addition, chemical and energy companies are seeking renewable feedstocks for the production of chemicals and materials that are currently made from petroleum feedstocks. The Biomass Research and Development Act of 2000 promotes the use of biobased industrial products, and the Food Security and Rural Investment Act of 2002 encourages the development and use of bioenergy. ARS will focus its research on: (1) improving the quality and quantity of agricultural biomass feedstocks for the production of energy, (2) developing technologies to produce biofuels from agricultural commodities, and (3) developing technologies leading to new value-added products from food animal byproducts. Increased development of bioenergy and biobased products will expand market opportunities for U.S. agriculture and reduce the Nation's dependence on petroleum imports from unstable regions.

Air and Water Quality ($1.8 million).—Millions of Americans are exposed to air pollution levels that exceed the Environmental Protection Agency's air quality standards. Agricultural activities, such as animal production operations, which produce ammonia, particulate matter, and volatile organic compounds, can adversely affect air quality. Another concern is the Nation's 11,000 small watershed dams that no longer meet current safety standards and need to be updated. ARS will use the proposed increase to develop new technologies that reduce gaseous and particulate matter emissions from animal feeding operations. It will also improve water quality and environmental benefits through agricultural systems research, as well as develop technologies which can be used to rehabilitate the Nation's aging watershed dams.

Global Climate Change ($3.2 million).—Climate change encompasses global and regional changes in the earth's atmospheric, hydrological, and biological systems. Agriculture is vulnerable to these environmental changes. The objective of ARS' global change research is to develop the information and tools necessary for agriculture to mitigate or adapt to climate change. ARS has research programs on carbon cycle/storage, trace gases (i.e., methane and nitrous oxide), agricultural ecosystem impacts, and weather/water cycle changes. ARS will use the proposed increase to develop climate change mitigation technologies and practices for the agricultural sector. Specifically, ARS will: (1) conduct interdisciplinary research leading to technologies and practices for sustaining or enhancing food and fiber production and carbon sequestration by agricultural systems exposed to multiple environmental and management conditions, (2) expand the existing network of ARS sites conducting measurements of greenhouse gas fluxes between the atmosphere and the land, and (3) identify ways to decrease methane emissions associated with livestock.

National Digital Library for Agriculture and Improved Agricultural Information Services ($1.9 million).—In 2001, both a "Blue Ribbon Panel" and an advisory board concluded that NAL needed increased resources to meet its potential, taking advantage of technological innovations for timely information access and retrieval. The proposed funding will support the development of additional information content for emerging diseases effecting crops and continue the revitalization of NAL, enabling it to better deliver relevant information products, satisfy increasingly complex customer demands, and provide leadership as the premier agricultural information resource of the United States.

Information Technology ($4.2 million).—ARS information technology (IT) systems and networks are exposed to an unprecedented level of risk. Of particular importance is safeguarding the agency's pathogenic, genomic, and other sensitive research information from being acquired or destroyed by unauthorized intruders through unprotected or undetected cyber links. Agencywide centralized security measures are needed to counter security threats. ARS must also ensure that its IT infrastructure (i.e., computers, network hardware, etc.) is up-to-date and reliable. ARS will use the proposed increase to replace, upgrade, and secure its IT equipment and systems.

PROPOSED OPERATING INCREASES

In addition to the proposed research initiatives, ARS' fiscal year 2006 budget provides funding to cover costs associated with pay raises. An increase of, $9.3 million, is critically needed to avoid erosion of the agency's base resources. Absorption of these costs reduces the number of scientists and support personnel essential for conducting viable research programs.

PROPOSED PROGRAM DECREASES

ARS' budget proposes a decrease of $203.1 million that currently finances unrequested or lower priority research projects added in recent years. The fiscal year 2006 budget requires that we exercise fiscal discipline to live within available resources. Within those resource levels, the Administration has had to exercise its judgment about what is needed to fund the highest priority programs. The initiatives described earlier meet that test. Therefore, other programs, such as those not previously requested by the Administration, could not be funded within the Budget.

PROPOSED FUNDING FOR BUILDINGS AND FACILITIES

The fiscal year 2006 budget recommends $64.8 million for ARS' Buildings and Facilities account. Most of the proposed funding, $58.8 million is for the National Centers for Animal Health in Ames, Iowa. The National Centers for Animal Health are critical to supporting American agriculture from both domestic and foreign diseases intentionally or unintentionally introduced. The new facility combines ARS' National Animal Disease Center with the Animal and Plant Health Inspection Service's National Veterinary Services Laboratory and the Center for Veterinary Biologics. The Centers will provide an integrated, multidisciplinary scientific capability, combining animal disease research with the development of diagnostic tools and vaccines. This request will provide the remaining funds necessary to complete this state-of-the-art complex.

ARS is also recommending $3 million for the planning and design of new, up-to-date containment facilities at the Foreign Disease Weed Science Research Laboratory at Ft. Detrick, Maryland. ARS scientists at this facility conduct research on foreign plant pathogens that must be kept under containment and pose a potential threat to American agriculture.

In addition, ARS is recommending $3 million for continuation of repairs to the National Agricultural Library. Constructed in 1968, many of the building's systems and structures require replacement. In fiscal year 2006 ARS plans to finance the replacement of windows and to complete the repairs to the brick veneer.

Mr. Chairman, this concludes my presentation of ARS' budget recommendations for fiscal year 2006. I will be happy to respond to any questions the Committee my have.

PREPARED STATEMENT OF DR. COLIEN HEFFERAN, ADMINISTRATOR, COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE

Mr. Chairman and Members of the Committee, I appreciate the opportunity to submit the proposed fiscal year 2006 budget for the Cooperative State Research, Education, and Extension Service (CSREES), one of the four agencies in the Research, Education, and Economics (REE) mission area of the United States Department of Agriculture (USDA).

The CSREES fiscal year 2006 budget proposal is just over $1 billion. CSREES, in concert with the Secretary of Agriculture and the intent of Congress, works in partnership with the land-grant university system, other colleges and universities, and public and private research and education organizations to initiate and develop agricultural research, extension, higher education, and related international activities to advance knowledge for agriculture, the environment, human health and well-being, and communities. In addition, CSREES implements grants for organizations to better reach and assist disadvantaged farmers in accessing programs of USDA. These partnerships result in a breadth of expertise that is ready to deliver solutions to problems facing U.S. agriculture today.

The fiscal year 2006 CSREES budget request aligns funding and performance with the USDA strategic goals. CSREES manages its many budget elements in support of research, education, extension, and outreach programs as part of a cohesive whole supporting all five of the Department's strategic goals. Distinct performance criteria, including strategic objectives and key outcomes with identified annual targets, are defined for each program or activity. As part of an integrated budget and performance process, CSREES conducts periodic portfolio reviews by external experts to monitor overall program progress, suggest alternative approaches, and propose management improvements.

The CSREES fiscal year 2006 budget proposal supports the Administration's commitment to competitive programs, in which awards are made based on an objective peer-review process, and to streamlining program delivery. Over the past several years, CSREES has demonstrated the capacity to reshape competitive programs to address not only fundamental science through individual investigator research, but also programmatic, multi-institutional efforts aimed at short to intermediate term problem solving, while maintaining the highest standard of peer-review. We believe this is the most effective way of achieving quality results that respond to critical program needs. Therefore, the fiscal year 2006 budget proposes to: (a) phase out funding for the Hatch Act and McIntire-Stennis Cooperative Forestry programs within 2 years; (b) eliminate the Animal Health and Disease, Section 1433 Research Program; and (c) redirect funding for Section 406 activities, formerly supported under the Integrated Activities account, to the Research and Education account. Activities for these programs will be supported through the National Research Initiative (NRI) and the new State Agricultural Experiment Station (SAES) Competitive Grants Program. This shift of funding will allow greater flexibility and responsiveness to critical agricultural issues.

CSREES continues to provide new opportunities for discoveries and advances in knowledge through the NRI program. The fiscal year 2006 budget request of $250 million for the NRI is a significant step towards reaching the authorized level of $500 million, and it is a strong statement of the importance that the Administration places on competitively awarded grants to advance knowledge for agriculture. The NRI will continue to support current high priority programs with an emphasis on critical issues. Through the NRI Coordinated Agricultural Project (CAP), multi-million dollar awards support multi-year large-scale projects to promote collaboration, open communication, and coordinate activities among individuals, institutions, States, and regions to address priority issues of national importance. A $5 million CAP award supports research to improve rice crops by using new genomic-based tools. The support included a multidisciplinary team of 14 institutions that will engage rice extension and industry personnel in agricultural genomics research to explore the potential of the technology. Extension personnel also will educate the public on the merits of applying genome information to improve agricultural crops. Another $5 million CAP award is being led by the University of Maryland and includes researchers and extension specialists representing 17 States. It is expected that the research and education from this project will help prevent and control avian influenza, a disease that continues to threaten the commercial poultry industry with millions of dollars in losses.

Expanded partnerships with other Federal agencies on research topics of mutual interest will be possible with the increase in the NRI funding. For example, research on the maize genome will be supported through partnership with the National Science Foundation and the U.S. Department of Energy. A comprehensive sequence resource will be developed for the maize genome, providing the scientific community with accurate and detailed information in a timely and cost-effective manner. This information will include a complete sequence of all maize genes and the full integration of the sequence with genetic and physical maps leading to improved maize varieties. The NRI also will support research on swine genomics. The Interagency Working Group on Domestic Animal Genomics has identified the swine genome as a high priority. The complete genomic sequence of swine is needed to provide the basic information to pursue studies of gene function and marker-assisted selection of animals for genetic improvement of swine in production systems. We are requesting an increase of $11 million in the NRI to support genomics research.

An increase of $4.6 million is proposed to address emerging issues in food and agricultural defense under the NRI. The requested funding will support research, education, and extension activities to increase the safety and security of U.S. agriculture and food systems to minimize threats to domestic plants and animals posed by infectious diseases and invasive species.

In fiscal year 2006 an increase of $8 million is proposed under the NRI for nanotechnology for functional foods and food safety. The requested funds will support innovative research in nanoscale science and engineering that will have specific applications to agriculture and food systems. Nanotechnology studies will lead to nutrient dense, healthful and flavorful foods with consumer appeal. Food function will be enhanced by using nanotechnologies to facilitate the delivery of health-providing bioactive nutrients to consumers.

Under the NRI, an increase of $7.5 million is proposed in fiscal year 2006 for nutrition and obesity studies with emphasis on research and evaluation methods to prevent childhood obesity. Research efforts will be specifically aimed at understanding the environmental and social factors influencing behaviors leading to childhood obesity and how to change them to reduce and prevent obesity. In addition, requested under the NRI is an increase of $39.3 million for ongoing research and integrated research and education projects that focus on water quality, food safety, and pest-related programs formerly funded under the Integrated Activities account.

The fiscal year 2006 budget also proposes a change to the general provisions of the fiscal year 2005 Consolidated Appropriations Act to increase from a maximum of 20 percent to a maximum 30 percent the amount provided for the NRI that may be used for competitive integrated activities.

As part of a coordinated plan to shift formula funding to competitively awarded grants and replace some of the multistate efforts currently supported by formula funds, CSREES requests $75 million for the new SAES Competitive Grants Program. As with the current multi-State program, funding would be available to all State Agricultural Experiment Stations. This program will support systemwide research planning and coordination, as well as regional, State, and local research in such areas as new products/new uses, social sciences, and the environment, including ecosystem management. In fiscal year 2006, it is proposed that research programs focused on methyl bromide and organic transition could be supported through this program. However, we will work closely with the SAES to ensure that this program also is responsive to their needs.

In continuing and expanding our efforts for agricultural security and in support of the President's Food and Agriculture Defense Initiative, CSREES, through cooperative efforts with the Animal and Plant Health Inspection Service, has established a unified Federal-State network of public agricultural institutions to identify and respond to high risk biological pathogens in the food and agricultural system. The network is comprised of 13 State animal diagnostic laboratories and 6 plant diagnostic laboratories, strategically located around the country. These 19 key laboratories are developing a two-way, secure communications network with other university and State Department of Agriculture diagnostic laboratories throughout their respective regions. The diagnostic laboratories are responsible for identifying, containing, and minimizing the impact of exotic and domestic pests and pathogens that are of concern to the security of our food and agricultural production systems. For example, within a few weeks after soybean rust was first detected in Louisiana, private interest disease surveillance activities were conducted by first detectors. Samples submitted to diagnostic laboratories, as a result of these first detectors, identified soybean rust in Mississippi, Florida, Georgia, Alabama, Arkansas, Missouri, South Carolina, and Tennessee. The budget proposal requests an increase of $21.1 million for a total of $30 million to maintain the national diagnostic laboratory network. The proposed increase also will allow the optimization of the security value of the diagnostic network which includes: a coordinated ground surveillance and response component with appropriate educational and training programs, a more extensive plant and animal disease and pest diagnostic capability, upgraded and enhanced equipment, increased information technology, expanded connectivity of State laboratories, and targeted research to develop improved diagnostic and treatment capabilities. The network will continue its link with the Extension Disaster Education Network (EDEN) to disseminate information to producers and professionals at the State and county level, and to expand these activities to provide more current and timely educational resources.

CSREES proposes $5 million for the Agrosecurity Education Program that will support educational and professional development for personnel in securing the Nation's agricultural and food supply. The program will develop and promote curricula for undergraduate and graduate level higher education programs that support the protection of animals, plants, and public health. The program is designed to support cross-disciplinary degree programs that combine training in food sciences, agricultural sciences, medicine, veterinary medicine, epidemiology, microbiology, chemistry, engineering, and mathematics (statistical modeling) to prepare food system defense professionals.

Also within the fiscal year 2006 budget request is a proposed increase of $4.5 million for the Expanded Food and Nutrition Education Program (EFNEP). The EFNEP program reaches predominantly minority, low-income youth and families with nutrition education that leads to sustained behavior changes. EFNEP works with various partners in providing its services, including collaborating with the National Institute of Health on the 5-A-Day program promoting increased consumption of fruits and vegetables, and with the Centers for Disease Control and Prevention on their VERBtm program sharing curriculum material directed at teaching young people about the importance of nutrition and physical activity. Increased funding also will allow EFNEP to move forward with efforts to add a physical activity focus to help combat the rising problem of obesity in children and adults. Funding at this level will allow participation by 1890 institutions who are uniquely positioned to reach those in need of nutrition education.

CSREES continues to expand diversity and opportunity with activities under 1890 base and educational programs, and 1994 and Hispanic-Serving Institutions educational programs. In fiscal year 2006, the budget requests an increase of approximately $1.5 million for both the research and extension 1890 base programs. Funding for our 1890 base programs provides a stable level of support for the implementation of research and extension programming that is responsive to emerging agricultural issues. Funding for the 1994 Institutions strengthens the capacity of the Tribal Colleges to more firmly establish themselves as partners in the food and agricultural science and education system through expanding their linkages with 1862 and 1890 Institutions. Sustained funding for the Hispanic-Serving Institutions promotes the ability of the institutions to carry out educational training programs in the food and agricultural sciences. This proven path of research, extension, and educational program development rapidly delivers new technologies into the hands of all citizens, helping them solve problems important to their lives.

CSREES also will continue to effectively reach underserved communities through sustained support for the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (OASDFR). CSREES will fund competitive multiyear projects to support outreach to disadvantaged farmers and ranchers. Funds for the OASDFR program will encourage and assist socially disadvantaged farmers and ranchers in their efforts to become or remain owners and operators by providing technical assistance, outreach, and education to promote fuller participation in all USDA programs.

The higher education programs contribute to the development of human capacity and respond to the need for a highly trained cadre of quality scientists, engineers, managers, and technical specialists in the food and fiber system. The fiscal year 2006 budget provides a $1.5 million increase in the Food and Agricultural Sciences National Needs Graduate Fellowship program. This program prepares graduates to deal with emerging challenges in such areas as agricultural biosecurity to ensure the safety and security of our agriculture and food supply, new issues in natural resources and forestry, and human health and nutrition, including problems related to obesity such as diabetes and cardiovascular health. Other higher education programs will provide important and unique support to Tribal Colleges, the 1890 Land-Grant Colleges and Universities, and the 1862 Land-Grant Universities as they pilot important new approaches to expand their programs.

CSREES is committed to improving the management of resources through the development and implementation of an electronic grants application and reporting system and the Research, Education, and Economics Information System (REEIS). The fiscal year 2006 budget proposes increases of $0.2 million and $0.3 million, respectively for these efforts. Currently, CSREES receives approximately 6,000 proposals annually, resulting in about 2,000 grants and cooperative agreements. These numbers are expected to grow with the proposed program increases in the fiscal year 2006 budget. We are committed to streamlining the process through participation in a common Federal electronic application and report system. We are rapidly developing and enhancing the capability to electronically receive, process, and award proposals, including electronic distribution to reviewers nationwide, and support for electronic financial and technical reporting on awards. We are implementing and expanding the capability of REEIS as a platform to link some 40 different databases and to serve as a single source of information on issues related to accountability, strategic planning, and performance assessment.

CSREES also is requesting funds to accelerate and innovate the e-Extension network that will offer Americans unparalleled access to scientifically-derived and unbiased information, education, and guidance about the things that matter the most in their lives. The fiscal year 2006 budget proposal includes $3 million for the New Technologies for Ag Extension Program to support systems that will make available research-based education offered by the e-Extension network.

Peer-reviewed competitive programs that meet national needs are a much more effective use of taxpayer dollars than earmarks that are provided to a specific recipient for needs that may not be national. Based upon its broad scope, including the expanded integrated authority, and proposed funding increase, alternative funding from the NRI could be used to provide a peer-reviewed forum for seeking and assessing much of the work funded through earmarks. For example in the past 4 years, CSREES supported research in animal identification and/or animal tracking under earmarked projects which fit within the scope of the NRI. In addition, earmarked projects for human nutrition and food safety are within the program areas of the NRI. In order to ensure the highest quality research which addresses national needs within available funding, the fiscal year 2006 budget has therefore proposed to eliminate earmarked projects.

The fiscal year 2006 budget proposes changes in the general provisions including, as previously mentioned, increasing the amount provided for the NRI that may be used for competitive integrated activities from up to 20 percent to up to 30 percent. Also proposed is the elimination of the cap on indirect costs for competitively awarded grants. In the past indirect cost rate caps have resulted in recipients' inability to recover legitimate indirect costs, thus penalizing recipients who choose to do business with CSREES. This elimination allows full indirect cost recovery under competitive awards and places CSREES competitive programs on an equal footing with other Federal assistance programs.

CSREES, in collaboration with university and other partners nationwide, continually meets the many challenges facing the food and fiber system. The programs administered by the agency reflect the commitment of the Administration to further strengthen the problem-solving capacity of Federally-supported agricultural research, extension, higher education, and outreach and assistance programs. In addition, we continue to enhance our responsiveness and flexibility in addressing critical agricultural issues.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions the Committee may have.

PREPARED STATEMENT OF SUSAN E. OFFUTT, ADMINISTRATOR, ECONOMIC RESEARCH SERVICE

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to present the proposed fiscal year 2006 budget for the Economic Research Service (ERS).

MISSION

The Economic Research Service informs and enhances public and private decision making on economic and policy issues related to agriculture, food, the environment, and rural development.

BUDGET

The agency's request for 2006 is $80.7 million. The agency is requesting a $5.8 million increase to continue the development of an integrated and comprehensive data and analysis framework of the food system beyond the farm-gate that will provide a basis for understanding, monitoring, tracking, and identifying changes in the food supply and in consumption patterns.

CONSUMER DATA AND INFORMATION SYSTEM

In fiscal year 2006, ERS is requesting an increase of $5.8 million to fully fund the Consumer Data and Information System which was partially funded in fiscal year 2005. The new data would be used to identify, understand and track changes in food supply and consumption patterns, and to explore the relationship between consumers' knowledge and attitudes and their consumption patterns.

Understanding consumer behavior is critical for addressing many of the Nation's problems related to eating behavior. Obesity, in particular, has become a major problem by increasing the risk for chronic diseases, increasing medical costs, and reducing productivity. Studies estimate that obesity is responsible for 365,000 deaths annually, costs society $92.6 billion in increased medical expenditures, and taxpayers finance half of these costs through Medicare and Medicaid. Additionally, research is pointing to a decline in life expectancy in the United States caused by the dramatic rise in obesity, especially among young people and minorities. Many people believe that formulating more effective programs and policies to end obesity hinges on a clearer understanding of eating behaviors. This initiative will support research that will provide the information and knowledge to develop, implement, and target improved nutrition programs and policies to reduce obesity.

Understanding consumer behavior is also critical for policy-making, and program development and implementation in many other USDA program areas. USDA officials require up-to-the-minute information on food prices, product movements, and potential consumer reactions to events to effectively make commodity support decisions, provide nutrition education, and ensure the safety of our food. This initiative will provide USDA with current food prices, sales volumes, food purchases, a data base on consumer characteristics and purchasing behavior, and the ability to quickly survey consumer reactions, knowledge, attitudes, and awareness on a host of issues.

The Consumer Data and Information System has three major components providing intelligence across and within the food and agricultural complex. ERS has initiated work on the first component, a very limited version of the Food Market Surveillance Report, which will be issued quarterly to USDA officials. These quarterly reports will provide the Department with the most up-to-date information on food prices, purchases, and sales data publicly or privately available. This information is critical to improve USDA decision-making and to provide data for understanding consumer purchasing behaviors. Additional funding is necessary for full implementation that will integrate food-away-from-home consumption patterns and associated markets into the system.

The second component, a new Rapid Consumer Response Module, will provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. The questions in the module will be asked to members of several proprietary consumer data panels currently maintained by private vendors. The first proposed module is a special survey that will provide a baseline for measuring consumer nutrition knowledge and implementation of the new Dietary Guidelines. A follow-up survey of the same respondents will provide information on consumer reaction to the guidelines. An examination of the respondents purchase records would reveal if dietary changes have actually occurred. Information will be used to better implement dietary guidance strategies and will provide policymakers with up-to-the-minute information and analyses. Another planned survey will measure consumer knowledge of BSE and quantify the relationships between knowledge levels and meat purchases.

Using fiscal year 2005 funding, ERS has initiated development of the third component, a Flexible Consumer Behavior Survey (FCBS) that will complement data from the National Health and Nutrition Examination Survey (NHANES). The FCBS will provide information needed to assess linkages among individuals' knowledge and attitudes about dietary guidance, and food safety, their economic circumstances, their food-choice decisions, and their nutrient intakes. Combining the NHANES with this new survey allows analysis of how individual behavior, information, and economic factors affect food choices, dietary status, and health outcomes. A team of representatives from government and non-governmental entities is developing and implementing the survey. Additional funding will provide data and research to link food prices with the NHANES and FCBS data.

Two additional components of the budget request are (1) additional staff to ensure the successful design and implementation of the Consumer Data and Information System and (2) a research grants program to complement and augment the ERS research program. A targeted research program will provide outside expertise to assist with the complex task of integrating survey information as well as provide seed funds for innovative nutrition and obesity studies using the data system. The design and implementation of this information system is currently being accomplished using existing staff through the reallocation of resources.

ERS CONTRIBUTIONS TO MISSION AREA GOALS

ERS supports the five USDA strategic goals to: (1) enhance economic opportunities for agricultural producers; (2) support increased economic opportunities and improved quality of life in rural America; (3) enhance protection and safety of the Nation's agriculture and food supply; (4) improve the Nation's nutrition and health; and (5) protect and enhance the Nation's natural resource base and environment.

Goal 1: Enhanced Economic Opportunities for Agricultural Producers

ERS helps the U.S. food and agriculture sector adapt to changing market structures in rapidly globalizing, consumer-driven markets by analyzing the linkages between domestic and global food and commodity markets, as well as the implications of alternative domestic and international policies on competitiveness. ERS economists analyze factors that drive change in the structure and performance of domestic and global food and agriculture markets; provide economic assessments of structural change and competition in the agricultural sector; analyze the price impacts of evolving structural changes in food retailing; analyze how international trade agreements and foreign trade restrictions affect U.S. agricultural production, exports, imports, and income; and provide economic analyses that determine how fundamental commodity market relationships are adjusting to changing trade, domestic policy, and structural conditions. ERS will continue to work closely with the World Agricultural Outlook Board (WAOB) and USDA agencies to provide short- and long-term projections of United States and world agricultural production, consumption, and trade.

In 2005, several initiatives are increasing the timeliness and availability of data and information, while simultaneously saving staff time. We are increasing the transparency of our commodity projections processes, automating calculations where possible, and embedding them within databases. Our goals are to: (1) make the work transparent, inviting critique from both internal and external users; (2) transition to fewer outlook analysts as retirements near, and (3) increase timeliness in the release of data. We will have databases available for all major crop and livestock commodities within the next 2 years.

ERS provides assessment of the effects of farm policy on the food and agricultural sector. The agency led the development of analytical studies that responded to requests to USDA for studies in the 2002 Farm Act. For example, the 2004 USDA report, Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing, provides a comprehensive assessment of the effects of current U.S. dairy programs that takes into account the ongoing structural change in consumer demand, farm structure, and the processing industry.

China is one of the top 10 markets for U.S. agricultural exports and is the world's largest producer and consumer of a range of commodities. ERS research continues to examine key factors that will shape the size and pattern of China's agricultural trade: water scarcity, implementation of WTO commitments, changes in Chinese consumers' demand for food, and factors influencing these changes, including the declining role of subsistence farming, effects of urbanization, and the rising demand for convenience. ERS' China briefing room (www.ers.usda.gov/briefing/china) provides access to reports that cover both specific market conditions and policy developments.

ERS continues to expand research on how the dynamics of consumer demand, notably the growing consumption of and trade in high value products, are shaping global markets. The United States has one of the most complex trade patterns for high value food products, including strong growth in imports. This is attributable to its large productive capacity, high-income consumers, and its heavy involvement in overseas investment in food processing and brand licensing. Research to understand the relative importance of these and other factors builds on recently completed studies and takes advantage of newly available global data sets on the food retail industry.

Organic farming continues to be one of the fastest growing segments of U.S. agriculture and can potentially enhance environmental protection, as well as economic opportunities for producers. Appropriations received in fiscal year 2005 allow ERS to continue to explore in greater depth the market for organic products and other commodities, and foods that are differentiated in the marketplace by virtue of how or where they are produced. In 2004, ERS co-sponsored a workshop with the Farm Foundation and Giannini Foundation that brought together industry leaders, academics and government agency staffers to identify research needed to understand the potential oversight role of government relative to various types of differentiated products, and the implications of alternative public or private regulatory approaches. In 2005, ERS is adding a targeted sample of organic dairy producers to USDA's annual Agricultural Resources Management Survey (ARMS). Survey data for both organic and conventional operations will enable, for the first time, a side-by-side comparison of the economic, structural, and production characteristics of these farms.

Food price determination is increasingly important for understanding domestic and international markets and for seizing opportunities to promote U.S. agriculture. ERS food markets research focuses on enhancing knowledge and understanding of food prices, both their objective measurement and how they are set by firms at different stages of the food system. ERS has begun to use micro-level household and store scanner data to measure the impact of changing store formats on food prices in order to focus on the changing economic environment and how these changes could affect customers' retail food purchasing habits.

In 2005, ERS will publish a series of reports on the impacts of concentration and consolidation along the food marketing chain. One report focuses on the dramatic change in the competitive dynamics of retail markets, measuring the price impact of Wal-Mart's success in marketing food. Another report examines supermarkets' resulting consolidations and measures the extent by which associated increases in the efficiency of supermarket operations would reduce food prices. Another report summarizes research on consolidation and structural change in the following food industries: meat packing, meat processing, poultry slaughter and processing, cheese, fluid milk, flour milling, feeds, and oilseed (corn, cottonseed, and soybean) processing. Findings to be published in 2005 suggest that even industries with growing demand experienced consolidation, and that technological change was the primary driver of consolidation from 1970–90. In addition, during the period under investigation, firms tended to acquire highly productive plants and then improve their performance. The evidence refutes the claim that mergers and acquisitions lead to worker dislocations and lost wages.

For producers, contracting can reduce income risks of price and production variability, ensure market access, and provide higher returns for differentiated farm products. For processors and other buyers, vertical coordination through contracting is a way to ensure the flow of products, obtain differentiated products, ensure traceability for health concerns, and guarantee certain methods of production. ERS continues to conduct research to improve understanding by decision-makers of changes in the agricultural sector's structure (for example, the implications for producers of the increasing replacement of open markets by contractual arrangements and vertical integration). ERS is currently examining the potential efficiency-enhancing motives for the increasing use of contracts by food manufacturers and processors. At the farm level, the new Family Farm Report—Structural and Financial Characteristics of U.S. Farms, which was published in March 2005—documents the ongoing changes in farms' structure, financial performance, and business relationships in response to consumer demands, competitive pressures, and changing opportunities for farm families. This report is based on analysis of 2001 ARMS data. A shorter Family Farm report based on 2003 ARMS data will be released later in 2005.

ERS will continue to work closely with the Foreign Agricultural Service (FAS) and the Office of the U.S. Trade Representative to ensure that ongoing negotiations on the Doha Development Agenda under the auspices of the World Trade Organization (WTO) and regional trade agreements are successful and advantageous for U.S. agriculture. The demands of developing countries for sharp cuts in domestic agricultural policies, along with exemptions that would limit the opening of their markets, serve as stumbling blocks to reaching an agreement in current WTO negotiations. While ERS analysis of the global benefits of trade liberalization shows potential gains for all types of countries, developing countries remain skeptical. Two common critiques are that the analysis does not include potential market effects of decoupled payments and does not include preferential market access by developing countries to developed country markets. Current ERS research addresses these questions with reports forthcoming in 2005 on the effects of farm programs and an analysis of preferential trade programs.

Since 1980, legislation has encouraged patenting and license agreements by Federal laboratories as a means of technology transfer. The ERS report, Government Patenting and Technology Transfer, which will be released in 2005, examines issues raised by government patenting behavior through a case study of the Agricultural Research Service. The report describes trends in patent use and considers its effectiveness toward this policy goal. The report compares patenting with alternative methods of technology transfer—such as scientific publication—and analyzes factors that determine the most effective means of promulgating the results of public research. Among the findings are that increased patenting and licensing by USDA has supplemented, not supplanted, the traditional instruments of technology transfer such as scientific publications.

Data from ARMS underlie important estimates of farm income and well-being, and constitute an essential component in much of ERS' research. In 2004, the ARMS survey sample was expanded sufficiently to allow ERS, with the National Agricultural Statistics Service (NASS), to produce State level estimates for the largest fifteen States (as measured by value of farm output). Also in 2004, ERS collaborated with NASS to develop new survey instruments and data collection approaches that merge mail surveys with in-person surveys, thereby reducing respondent burden and improving the efficiency of data collection. In addition, ERS has developed a path-breaking, web-based, secure ARMS data retrieval and summarization prototype tool that is easy to use. Implemented in 2004 in both public and restricted-access web versions, this system retrieves ARMS data in formats customized to the customers' needs, while assuring that sensitive data are not disclosed.

Goal 2: Support Increased Economic Opportunities and Improved Quality of Life in Rural America

ERS research explores how investments in rural people, businesses, and communities affect the capacity of rural economies to prosper in the new and changing global marketplace. The agency analyzes how demographic trends, employment opportunities, educational improvements, Federal policies, and public investment in infrastructure and technology affect economic opportunity and quality of life for rural Americans. The rural development process is complex and sensitive to a wide range of factors that, to a large extent, are unique to each rural community. Nonetheless, ERS assesses general approaches to development to determine when, where, and under what circumstances rural development strategies will be most successful.

ERS assesses rural needs by examining the changing demographic, employment, education, income and housing patterns of rural areas. Data from the 2000 Census and other Federal information sources provide the most up-to-date information on the current conditions and trends affecting rural areas, and provide the factual base for rural development program initiatives. In 2005, the agency is continuing its series of publications that report current indicators of social and economic conditions in rural areas for use in developing policies and programs to assist rural people and their communities. Rural America at a Glance: 2005, Rural Transportation at a Glance, Rural Children at a Glance, and Rural Minorities at a Glance, all designed for a policy audience, will summarize the most current information relevant information on these topics.

In fiscal year 2005, ERS will disseminate research findings from an ERS—Cornell University conference on “Population Change and Rural Society,” held in January 2004. This conference showcased an integrated set of demographic studies by leading social scientists that analyzed critical demographic trends from the 2000 Census and drew conclusions about their implications for economic and social life in rural America. The conference focused on the policy implications of changing demographic composition, economic restructuring, changing land use patterns, and geographic patterns of chronic disadvantage and emerging growth. The compendium of papers marks the first comprehensive look at rural America based on data from the 2000 Census.

For over 30 years, ERS has captured aspects of the broad economic and social diversity among rural areas in various county classifications. These typologies have been widely used by policy analysts and public officials to determine eligibility for and the effectiveness of Federal programs to assist rural America. In August of 2004, ERS released a new county typology that maps out a geographic portrait of the rich diversity of rural America in ways that are meaningful for developing public policies and programs. In fiscal year 2005, ERS will publish a series of policy briefs that will address how the economic, demographic, and policy themes identified in this typology translate into effective rural development strategies for enhancing rural economic opportunities and well being.

ERS is at the forefront of analysis assessing the critical role of education in local, regional, and national economic development. The No Child Left Behind Act of 2002 created a new era of increased school accountability to ensure that our public schools adequately prepare students for the increasingly high-skill “new economy” in which we now live. However, rural schools and communities present a distinct set of challenges to education reform. In 2005, findings from a conference sponsored by ERS and the Southern Rural Development Center will be published as special issues of two academic journals, the Review of Regional Studies and the Journal of Research in Rural Education. Research findings will focus on student achievement in rural schools, and the linkages among schools, rural communities, and the labor market.

Rural communities view increased educational investments as an important part of economic development but are sensitive to the partial loss of their investment in the form of youth outmigration to areas with better opportunities. ERS is partnering with land-grant universities in a research program designed to measure the relationship between education and economic outcomes, both for the individual worker and rural community, to help local communities better target their economic development and school improvement efforts.

ERS also continues its long tradition of economic research on the welfare of disadvantaged population groups in rural areas, including low-income families, children, the elderly, and racial/ethnic groups, as well as the Federal assistance programs that serve them. Through its research on the measurement and dimensions of rural poverty, ERS helps to better target and improve the effectiveness of Federal assistance programs. In 2005, ERS will publish a study of the changing nature of the rural low-skill labor force and its implication for the economic well being of rural areas.

ERS conducts ongoing research on the impact and effectiveness of Federal programs in rural areas. For example, ERS assists USDA's Rural Development mission area in efforts to improve the delivery and effectiveness of rural development programs through targeted economic analysis. In 2005, ERS will continue to work with Rural Development staff and cooperators at the University of Missouri to develop measurable performance indicators for USDA rural business programs. In addition, ERS is now focusing greater attention on the effects of Federal farm policy on rural areas and farm households in preparation for the upcoming debate over the 2007 Farm Bill. A 2005 conference, jointly sponsored by ERS and the National Center for Food and Agricultural Policy, will help provide policymakers with a better understanding of the linkages between farm policy, farm households, and rural communities. A new ERS briefing room on our website will be continually updated during 2005 to provide an economic assessment of the implications of farm policy reform and adjustment for agriculture and rural America.

Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply

ERS research is designed to support food safety decision-making in the public sector and to enhance the efficiency and effectiveness of public food safety policies and programs. The program focuses on valuing the societal benefits of reducing and preventing illnesses caused by microbial pathogens; assessing the costs of alternative food safety policies; assessing industry incentives to enhance food safety through new technologies and supply chain linkages; evaluating regulatory options and change; and exploring linkages between food safety and international trade. ERS has worked closely with various USDA agencies and the Centers for Disease Control and Prevention (CDC) on various pathogen risk assessments and on analyzing the benefits and costs of implementing the Hazard Analysis and Critical Control Points (HACCP) rule. ERS and the Food Safety and Inspection Service (FSIS) work together to identify research projects and activities that address the needs of the Department.

As part of several national homeland security activities, ERS continues to develop the capacity to assess the impact of accidental and intentional disruptions to our food and agricultural system. ERS staff are prepared to conduct the complex economic analysis needed to assess the cost of securing our food supply, which includes protecting production, processing, distribution, and consumption of food and agricultural products. ERS is working with the Animal and Plant Health Inspection Service (APHIS) and the Food and Drug Administration (FDA) to improve tools for the analysis of disruption and disease mitigation strategies that require both sound biological and economic analysis.

ERS has become well-known for its pioneering estimates of the societal costs associated with foodborne illnesses due to E. coli and other known pathogens. ERS and researchers from Harvard and the University of Wyoming are collaborating to develop new methodologies for more accurately eliciting and measuring the value of reductions in health risk associated with foodborne pathogens. Results from both studies are expected in 2005.

ERS is heading a project supporting the Department's reevaluation of the appropriate roles for performance versus process standards in enhancing food safety. Recent massive recalls of beef and poultry products, the creation of international food safety standards, and a recent court ruling rejecting failure to meet Salmonella standards as a legal basis for closing a meat-processing plant have created concern about the basic principles behind U.S. food safety regulation. This project analyzes the costs and benefits of food safety performance standards and develops guidelines for the application of such standards. Preliminary results indicate that recent advances in testing technology provide more accurate results, shorter time to result, greater ease of use, and lower costs than in the past.

In the event that unsafe food enters the marketplace, public health officials and food safety regulators ultimately rely on records maintained by private industry and retailers to track the manufacture and distribution of that food. Privately maintained traceability bookkeeping records provide investigators with information on the extent and distribution of a contaminated product—and on how to remove such a product from distribution channels efficiently. The strength of private traceability systems and the readiness of the food industry to track and recall a contaminated product is important for safeguarding the Nation's food supply. In 2005, ERS is working with agricultural economists from the University of Arkansas to investigate how various food companies in different industries handle product recalls, the operation of designated recall teams, and the frequency and results of mock recalls. The research will examine the type and scope of information collected from auditing and certification activities, characteristics of firms with recall practices, and the proportion of firms in given sectors participating in auditing and certification activities.

In response to increased risks to the Nation's agriculture and food supply due to bio-terrorism, ERS embarked on an ambitious project known as Geo-Spatial Economic Analysis (GSEA). The GSEA system merges an extensive Geographic Information System with the analytical expertise of ERS's economists and the Security Analysis System for U.S. Agriculture (SAS–USA), which is a framework to tie systematically all food supply processes from farm production, food manufacturing, distribution of food products, to food consumption in every region of the country. The GSEA system is designed to serve as a platform for collaborative analysis across agencies in USDA and with appropriate groups in FDA and the Department of Homeland Security (DHS). These capabilities mean that emergencies can be managed efficiently and expeditiously by assessing vulnerabilities and predicting outcomes. In 2005, the GSEA team expects to launch joint projects with the Army Corps of Engineers and several national labs to improve our ability to measure the economic consequences in the food and agricultural industries caused by disruptions in other critical infrastructures. In support of broad USDA initiatives such as the National Plant Disease Recovery System, the GSEA system will serve as a tool to improve economic assessments of crop and animal disease outbreaks using alternative control strategies.

Goal 4: Improve the Nation's Nutrition and Health

ERS studies the relationships among the many factors that influence food choices and eating habits and their health outcomes. The roles of income, age, race and ethnicity, household structure, knowledge of diet and health relationships, nutrition information and labeling, and economic incentives and policies that affect food prices and expenditures are of particular interest. Reducing obesity through understanding its costs to individuals and society, how income, diet and health knowledge affect obesity status, and considering private versus public roles in reducing obesity is a priority for this Administration.

ERS research has a major focus on the economic dimensions of obesity, including understanding the societal costs of obesity, explaining obesity trends among different demographic and income groups, and assessing the benefits and costs of alternative options for influencing Americans' food choices and dietary behaviors, including roles for nutrition education and Federal food and nutrition assistance programs. In 2005, ERS is investigating the factors that influence consumers' food choices when eating away from home using the NHANES data. This research will focus on discovering consumer preferences, such as convenience and entertainment that compete with healthy eating. Information about these factors help social marketers design effective campaigns to influence consumers' away from home eating behavior.

Through the Food Assistance and Nutrition Research Program (FANRP), ERS conducts studies and evaluations of the Nation's food and nutrition assistance programs. FANRP research is designed to meet the critical information needs of USDA, Congress, program managers, policy officials, clients, the research community, and the public at large. FANRP research is conducted through internal research at ERS and through a portfolio of external research. Through partnerships with other agencies and organizations, FANRP also enhances national surveys by adding a food and nutrition assistance dimension. FANRP's long-term research themes are dietary and nutritional outcomes, food program targeting and delivery, and program dynamics and administration.

ERS continues to fund a national survey of food security and hunger, conducted by the Census Bureau, as a supplement to the Current Population Survey (CPS). The survey measures the number of U.S. households that face difficulties in putting enough food on the table. A new ERS effort, in cooperation with USDA's Food and Nutrition Service, is designed to assess and strengthen food security measurement by providing support for a National Academy of Sciences panel. The panel is reviewing methods and procedures that underlie the current measure and will consider various approaches to enhance these methods for monitoring, evaluation, and related research purposes.

As part of our effort to improve the timeliness and quality of the Department's food consumption data, in 2003 ERS launched an interagency effort to develop a proposal for an external review of USDA's food consumption data needs and gaps. Enhancements to the food consumption data infrastructure are critical to understanding and addressing many market and policy issues in the Department. The interagency effort led to the funding of a review by the National Research Council's Committee on National Statistics. A panel of experts was compiled, and the first stage of the data review was a workshop held in the spring of 2004. A final report will be issued by the Committee in 2005.

Goal 5: Protect and Enhance the Nation's Natural Resource Base and Environment

In this area, ERS research and analytical efforts, in cooperation with the Natural Resources Conservation Service (NRCS), support the development of Federal farm, conservation, and environmental policies and programs. These efforts require analyses of the profitability and environmental impacts of alternative production management systems in addition to the cost-effectiveness and farm income impacts of public sector conservation policies and programs.

With passage of the Farm Security and Rural Investment (FSRI) Act of 2002, USDA looked to ERS to provide comprehensive, detailed, and understandable information to public and private users, including information on programs in the Conservation Title. In addition, ERS provided extensive support to other USDA agencies in developing rules for implementation of Farm Bill conservation programs. ERS participated in Farm Service Agency (FSA) and NRCS working groups on the Conservation Reserve Program (CRP), the Environmental Quality Incentives Program (EQIP), the Conservation Security Program (CSP), and implementation of conservation technical assistance by third-party technical service providers. In 2004, ERS contributed substantially to the NRCS benefit-cost assessment for CSP. For instance, ERS helped to prepare the NRCS report, Conservation Security Program: Benefit Cost Analysis released in June 2004. ERS analysts played a central role in both conceptualizing and developing a model of CSP participation that is recognized by NRCS and others within USDA as an important contribution to USDA's analytic capability with respect to conservation programs. ERS assisted FSA with the implementation of the CRP program by providing input data and suggesting ways to improve the Willingness-to-Bid model used by FSA to set an environmental benefits index (EBI) cutoff for enrollment in the twenty-ninth signup. ERS also participated in forward-looking planning exercises concerning major CRP enrollment/reenrollment decisions expected in 2007.

The FSRI sharply increased conservation funding and earmarked most of it for working lands conservation rather than for farmland retirement. The ERS report, "Flexible Conservation Measures on Working Land: What Challenges Lie Ahead?" to be released in 2005, tackles the issues and complexities that pertain to the design of working-land payment programs (WLPPs). Program design and implementation will largely determine the extent to which environmental goals are achieved, and whether they are achieved cost-effectively, i.e., at a minimum cost to society. A cost-effective program: (1) anticipates economic and environmental outcomes associated with enrolling specific producers; and (2) attracts and enrolls producers that are most likely to deliver the desired outcomes. The report analyzes the critical role of program design in gathering information (from producers in a bidding process) and using that information to identify and enroll producers who, collectively, are most likely to achieve program objectives cost-effectively. Empirical analysis also shows how the environment, commodity prices, and farm incomes could be affected by alternative designs.

In 2004, ERS transmitted to Congress the report, The Conservation Reserve Program's Economic and Social Impacts on Rural Counties, as mandated by the FSRI, as well as the public version released in October 2004, The Conservation Reserve Program: Economic Implications for Rural America. These reports address a number of concerns about the unintended consequences of high levels of enrollment in the CRP. Our research finds no statistically significant evidence that high enrollments in the CRP have had a systematic, adverse effect on population or community services in rural counties across the country.

In the course of the production of food and fiber, agriculture also produces many by-products (externalities) such as open space, recreational amenities, scenic views, groundwater recharge, and wildlife habitat. Historically, the standard policy practice has been to address each externality through a separate policy instrument. However, when the transaction costs of administering policies (e.g., information gathering, contract formulation, enforcement) are positive, using one instrument to address each externality or objective may not be optimal. Using an empirical analysis focusing on the CRP, the ERS report The Multiple Objectives of Agri-Environmental Policy, to be released in 2005, explores the extent to which environmental attributes may be jointly produced, e.g., efforts to reduce soil erosion may also reduce nutrient runoff and increase soil carbon, with implications for simultaneously targeting multiple environmental and cost objectives. The report also provides an in-depth look at the costs, benefits, and tradeoffs associated with the use of indices (such as the EBI used to implement the CRP) for simultaneously targeting multiple environmental and cost objectives.

Furthermore, applying environmental policies in an uncoordinated fashion fails to account for interactions among environmental mediums (i.e., air, land, water). This can result in conflicting policies, in that addressing one environmental problem can make another worse. The ERS report, Manure Management for Multimedia Environmental Improvement: A Comparison of Single Media versus Multi-Media Policy Optimization, to be released in 2005, provides a concrete example of the tradeoffs of alternately and simultaneously meeting air and water quality objectives, in terms of farmers' costs, production decisions, and environmental indicators, by focusing on livestock and poultry production. Among the results in the report is that, if enacted, restrictions on ammonia emissions from concentrated animal feeding operations could increase the cost of meeting Clean Water Act regulations for spreading manure.

Many economists, ecologists, and wildlife biologists have argued that less productive agricultural lands are environmentally sensitive. If true, then this would have important implications for agricultural policy. For instance, programs that stimulate production may cause farmers to bring the relatively less productive lands that are environmentally more sensitive into production. Using data from the USDA's National Resources Inventory, the ERS report to be released in late 2005, Land-Use Change and the Environment at the Extensive Margin of Cropland, finds that there is a general relationship between lower productivity and environmental sensitivity in terms of several agri-environmental indicators examined, but this relationship does not hold within all locations.

In fiscal year 2004, ERS continued the Program of Research on the Economics of Invasive Species Management (PREISM) that was initiated in fiscal year 2003. PREISM supports economic research and the development of decision support tools that have direct implications for USDA policies and programs for protection from, control/management of, regulation concerning, or trade policy relating to invasive species. Program priorities have been selected through extensive consultation with APHIS, the Office of Budget and Program Analysis (OBPA) and other agencies with responsibility for program management. In 2004, APHIS used an ERS-supplied pest ranking decision tool to determine which pests would be on its 2004 Federal-State Cooperative Agricultural Pest Survey list, making transparent the basis for selecting the pests for which State cooperators could receive targeted pest surveillance and detections funds. The recent and rapid spread of the pathogen, soybean rust (SBR), in South America prompted ERS, in April 2004, to publish a study of the economic and policy impacts of its windborne entry into the United States, Economic and Policy Implications of Wind-Borne Entry of Asian Soybean Rust into the United States. This study quantifies the potential economic impacts in the United States in both the first year of SBR's entry and subsequent years when producers have adapted to this new pest. On November 10, 2004, APHIS confirmed the presence of SBR on soybean leaf samples taken from two plots associated with a Louisiana State University research farm. The already published ERS analysis was used by the USDA in refining rapid response strategies in anticipation of SBR entry to North America.

In addition to ERS-led analysis of invasive species issues, PREISM has allocated over $2.4 million in extramural research cooperative agreements through a peer- reviewed competitive process. To share review progress made by cooperators who received PREISM funding, and to provide a forum for dialogue on economic issues associated with agricultural invasive species, ERS organized a workshop in August 2004 with 90 attendees from academia and Federal agencies. Among the projects funded in fiscal year 2004 were a GIS-based decision support tool to help forest land managers prioritize their efforts to eradicate or control invasive species, and a decision tool for establishing efficient border protection controls against potentially damaging species under conditions of extreme uncertainty and limited budgets.

Customers, Partners, and Stakeholders

The ultimate beneficiaries of ERS' programs are the American people, whose well-being is improved by informed public and private decision-making that leads to more effective resource allocation. ERS shapes its program and products principally to serve key decision-makers who routinely make or influence public policy and program decisions. This clientele includes White House and USDA policy officials and program administrators/managers; the U.S. Congress; other Federal agencies, and State and local government officials; and domestic and international environmental, consumer, and other public organizations, including farm and industry groups interested in public policy issues.

ERS depends heavily on working relationships with other organizations and individuals to accomplish its mission. Key partners include: NASS for primary data collection; universities for research collaboration; the media as disseminators of ERS analyses; and other government agencies and departments for data information and services.

Closing Remarks

I appreciate the support that this Committee has given ERS in the past and look forward to continue working with you and your staff to ensure that ERS makes the most effective and appropriate use of public resources. Thank you.

PREPARED STATEMENT OF R. RONALD BOSECKER, ADMINISTRATOR, NATIONAL AGRICULTURAL STATISTIC SERVICE

Mr. Chairman and members of the Committee, I appreciate the opportunity to submit a statement for this Committee's consideration in support of the fiscal year 2006 budget request for the National Agricultural Statistics Service (NASS). This agency administers the U.S. agricultural statistics program, created in USDA in 1863, and, beginning in 1997, conducts the U.S. Census of Agriculture, first collected in 1840. Both programs support the basic mission of NASS to provide timely, accurate, and useful statistics in service to U.S. agriculture.

MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The continual progression of American farms and ranches to make greater use of agricultural science and technology, coupled with the growing complexity of global marketing, increases the need for modern and reliable statistical information. The periodic surveys and censuses conducted by NASS contribute significantly to economic decisions made by policymakers, agricultural producers, lenders, transporters, processors, wholesalers, retailers, and ultimately, consumers. Voids in relevant, timely, and accurate data contribute to wasteful inefficiencies throughout the entire production and marketing system.

The Farm Security and Rural Investment Act of 2002 created the need for several new data series. For example, the 2002 Census of Agriculture data were used to help prepare the first annual report to Congress on USDA program participation of socially disadvantaged farmers and ranchers. Census data on race, ethnicity, and gender were used at the county level in preparing the report. These Census of Agriculture data are the only source of comprehensive information available on the agricultural sector. The 2002 Farm Bill also reinforced the importance of existing data series to ensure the continuation of farm security and rural investments. For example, counter-cyclical payments are determined in part by market year average prices determined by NASS. Each $0.01 change in the average corn price may have resulted in a change of more than $110 million in counter-cyclical payments during 2004. Similarly, large payment changes also apply for the other program crops. These are only a few specific data needs required by the Statute, but they clearly highlight the importance of a strong, reliable agriculture statistics program.

NASS works cooperatively with each State Department of Agriculture throughout the year to provide commodity, environmental, economic, and demographic statistics for agriculture. This cooperative program, which began in 1917, has served the agricultural industry well and is often cited by others as an excellent model of successful State-Federal cooperation. This joint State-Federal program helps meet State and national data needs while minimizing overall costs by consolidating both staff and resources, eliminating duplication of effort, and reducing the reporting burden on the Nation's farm and ranch operators. NASS' 46 field offices, which cover all 50 States and Puerto Rico, provide statistical information that serves national, State, and local data needs.

NASS statistics contribute to providing fair markets where buyers and sellers have access to the same official statistics, at the same pre-announced time. This prevents markets from being unduly influenced by "inside" information, which might unfairly affect market prices for the gain of an individual market participant. Empirical evidence indicates that an increase in information improves the efficiency of commodity markets, minimizing price fluctuations for U.S. producers. Measures relating to the competitiveness of our Nation's agricultural industry have become increasingly important as producers rely more on world markets for their sales.

NASS statistical reports are critically important to assess the current supply of and demand for agricultural commodities. They are also extremely valuable to producers, agribusinesses, farm organizations, commodity groups, economists, public officials, and others who use the data for decision-making. For example, the U.S. cattle and hog industries requested joint reports of United States and Canadian livestock. The resulting publications provide composite information on potential supplies and inventories of cattle and hogs. This information can be used to make informed decisions, such as marketing, expansion, or contraction, in today's global economy. Without these data, the United States would be at a disadvantage in global trade discussions and would find it very difficult to secure global contracts and develop strong, reliable relations with our trading partners.

NASS has been a leader among Federal agencies in providing electronic access to information. All reports issued by NASS' Agricultural Statistics Board are made available to the public at a previously announced release time to ensure that everyone is given equal access to the information. All of NASS' national statistical reports and data products, including graphics, are available on the Internet, as well as in printed form. Customers are able to electronically subscribe to NASS reports and can download any of these reports in a format easily accessible by standard software. A summary of NASS and other USDA statistical data are produced annually in USDA's Agricultural Statistics, available on the Internet through the NASS Home Page, on CD–ROM disc, or in hard copy. All of NASS's 46 field offices have Home Pages on the Internet, which provide access to special statistical reports and information on current local commodity conditions and production.

NASS released the results of the 2002 Census of Agriculture in the Spring of 2004. The Census of Agriculture is taken every 5 years and provides comprehensive data at the national, State, and county level on the agricultural sector. The Census of Agriculture is the only source for this information on a local level, which is extremely important to the agricultural community. Detailed information at the county level helps agricultural organizations, suppliers, handlers, processors, and wholesalers and retailers better plan their operations. Important demographic information supplied by the Census of Agriculture also provides a very valuable database for developing public policy for rural areas. The 2002 Census of Agriculture included for the first time data on demographic information for up to three operators, enhanced data on agricultural activity on American Indian Reservations, acreage of organically produced crops, and information on production contracts used in agriculture. Additionally, agriculture census results reflected the status of all U.S. farms instead of only those represented on the census mail list as was done previously. New statistical methodology was employed to provide the most complete picture of U.S. agriculture in many years. Census data were also released for agriculture census programs in Puerto Rico, Guam, and the Commonwealth of the Northern Mariana Islands. All of these results are available on the NASS Website.

Statistical research is conducted to improve methods and techniques used for collecting and processing agricultural data. This research is directed toward achieving higher quality census and survey data with less burden to respondents, producing more accurate and timely statistics for data users, and increasing the efficiency of the entire process. For example, NASS officially deployed its Electronic Data Reporting (EDR) system in 2004, which provides respondents with the ability to electronically complete the data collection process and thus reduces reporting burden. Plans are to complete the system with the electronic availability of the 2007 Census of Agriculture. The growing diversity and specialization of the Nation's farm operations have greatly complicated procedures for producing accurate agricultural statistics. Developing new sampling and survey methodology, expanding modes of data collection including electronic data reporting, and exploiting computer intensive processing technology enables NASS to keep pace with an increasingly complex agricultural industry.

The fiscal year 2005 budget included $2.7 million for agricultural estimates restoration and modernization. These funds provided the continued development of a foundation for quality improvements in forecasts and estimates. The 2005 funds are being used to improve the precision level from commodity surveys conducted by NASS. The majority of the funding is being allocated to increasing sample sizes and the data collection activities of local interviewers throughout the Nation.

The primary activity of NASS is to provide reliable data for decision-making based on unbiased surveys each year, and the Census of Agriculture every 5 years, to meet the current data needs of the agricultural industry. Farmers, ranchers, and agribusinesses voluntarily respond to a series of nationwide surveys about crops, livestock, prices, chemical use and other agricultural activities each year. Periodic surveys are conducted during the growing season to measure the impact of weather, pests, and other factors on crop production. Many crop surveys are supplemented by actual field observations in which various plant counts and measurements are made. Administrative data from other State and USDA agencies, as well as data on imports and exports, are thoroughly analyzed and utilized as appropriate. NASS prepares estimates for over 120 crops and 45 livestock items which are published annually in over 400 separate reports.

Approximately 65 percent of NASS's staff are located in the 46 field offices; 21 of these offices are collocated with State Departments of Agriculture or land-grant universities. NASS' State Statistical Offices issue approximately 9,000 different reports each year and maintain Internet pages to electronically provide their State information to the public.

NASS has developed a broad environmental statistics program under the Department's water quality and food safety programs. Until 1991, there was a serious void in the availability of reliable pesticide usage data. Therefore, beginning in 1991 NASS cooperated with other USDA agencies, the Environmental Protection Agency (EPA), and the Food and Drug Administration, to implement comprehensive chemical usage surveys that collect data on certain crops in specified States. NASS data allows EPA to use actual chemical data from scientific surveys, rather than worst case scenarios, in the quantitative usage analysis for a chemical product's risk assessment. Beginning in fiscal year 1997, NASS also instituted survey programs to acquire more information on post-harvest application of pesticides and other chemicals applied to commodities after leaving the farm. These programs have resulted in significant new chemical use data, which are important additions to the database. Surveys conducted in cooperation with the Economic Research Service (ERS) also collect detailed economic and farming practice information to analyze the productivity and the profitability of different levels of chemical use. American farms and ranches manage nearly half the land mass in the United States, underscoring the value of complete and accurate statistics on chemical use and farming practices to effectively address public concerns about the environmental effects of agricultural production.

NASS conducts a number of special surveys, as well as provides consulting services for many USDA agencies, other Federal or State agencies, universities, and agricultural organizations on a cost-reimbursable basis. Consulting services include assistance with survey methodology, questionnaire and sample design, information resource management, and statistical analysis. NASS has been very active in assisting USDA agencies in programs that monitor nutrition, food safety, environmental quality, and customer satisfaction. In cooperation with State Departments of Agriculture, land-grant universities, and industry groups, NASS conducted 138 special surveys in fiscal year 2004 covering a wide range of issues such as farm injury, nursery and horticulture, farm finance, fruits and nuts, vegetables, and cropping practices. All results from these reimbursable efforts are publicly available.

NASS provides technical assistance and training to improve agricultural survey programs in other countries in cooperation with other government agencies on a cost-reimbursable basis. NASS's international programs focus on developing and emerging market countries in Asia, Africa, Central and South America, and Eastern Europe. Accurate information is essential for the orderly marketing of farm products. NASS works directly with countries by assisting in the application of modern statistical methodology, including sample survey techniques. This past year, NASS provided assistance to Brazil, China, El Salvador, Guatemala, Kazakhstan, Mexico, Nepal, Russia, and the Ukraine. In addition, NASS conducted training programs in the United States for 219 visitors representing 24 countries. These assistance and training activities promote better quality data and improved United States access to data from other countries.

NASS annually seeks input on improvements and priorities from the public through the Secretary of Agriculture's Advisory Committee on Agriculture Statistics, displays at major commodity meetings, data user meetings with representatives from agribusinesses and commodity groups, special briefings for agricultural leaders during the release of major reports, and through numerous individual contacts. As a result of these activities, the agency has made adjustments to its agricultural statistics program, published reports, and expanded electronic access capabilities to better meet the statistical needs of customers and stakeholders.

FISCAL YEAR 2006 PLANS

The fiscal year 2006 budget request is for $145.2 million. This is a net increase of $16.7 million from fiscal year 2005.

The fiscal year 2006 request includes increases to continue restoration and modernization of NASS' core survey and estimation program ($7.0 million); improvement in the statistical integrity and standardization of the data collection and processing activities of the Local County Agricultural Estimates program ($1.9 million); cyclical activities associated with preparing and conducting the Census of Agriculture ($6.5 million); and funding for increased pay costs ($1.3 million).

An increase of $7.0 million and 10 staff years are requested to fund the continuation of the restoration and modernization of NASS' core survey and estimation program. This increase will be directed at continuing to restore and modernize the core survey and estimation program for NASS to meet the needs of data users at necessary levels of precision for State, regional, and national estimates. Decisions affecting billions of dollars in the U.S. food and agricultural sectors are facilitated in both public and private venues through access to reliable statistical information. The USDA NASS statistical program serves most agricultural commodity data needs in the United States, as well as supplying important economic, environmental, and demographic data that are used to impact lives of rural residents. Escalating survey expenses, staff costs, and operating expenses, including higher contract costs, forced detrimental adjustments to many of the Agency's survey and estimates programs. These actions over time led to reductions in the quality of the survey data on which NASS estimates are based. Funding received in fiscal year 2004 and fiscal year 2005 was part of this multi-year initiative to restore survey accuracy to previous levels. These changes were designed to increase precision at the State and regional levels to promote the NASS goal for fiscal year 2005 of reaching precision target levels at least 75 percent of the time for major survey indications. The additional funding requested in fiscal year 2006 will allow continued improvements and provide the necessary resources to reach precision target levels an estimated 83 percent of the time.

An increase of $1.9 million and 4 staff years are requested to provide for data acquisition for the annual integrated Local County Agricultural Estimates program. Local area statistics are one of the most requested NASS data sets, and are widely used by private industry, Federal, State and local governments and universities. This funding supports the NASS goal to incrementally improve survey precision for small area statistics. Current estimates are derived through a survey process that does not support scientific probability design to produce statistically defensible survey precision. Proper follow-up data collection activities and redesign of survey systems will improve the critical annual county-level data. The Risk Management Agency (RMA) uses these statistics in indemnity calculations for Group Risk Plans and the Group Risk Revenue Plans as part of the risk rating process. This affects premium levels paid by producers. The FSA uses county estimates to weight posted county prices to national loan deficiency payments, and as an input to assist producers to update their base acreage and yields as directed by the 2002 Farm Bill. In addition, financial institutions, agriculture input suppliers, agricultural marketing firms, and commodity transport firms utilize county level data to make informed business decisions.

An increase of $6.9 million and 15 staff-years is requested for the Census of Agriculture. The Census of Agriculture budget request is for $29.1 million. This includes a cyclical program cost increase of $6.5 million and $389,000 for employee compensation. The available funding includes monies to prepare for the 2007 Census of Agriculture and to conclude analysis and publication of the Census of Aquaculture in December 2006. The increase will be used to finalize questionnaire content for the 2007 Census of Agriculture. Mail list development activities will continue during fiscal year 2006 with the assistance of locally employed enumerators. Contract employees will aid in updating and streamlining census processing systems needed for conducting the Census of Agriculture and its follow-on surveys. Finally, hardware and software will be upgraded to allow for testing and implementation of the processing systems.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to submit this for the record.

PREPARED STATEMENT OF J.B. PENN

Mr. Chairman and Members of the Committee, I am pleased to appear before you this afternoon to present the 2006 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). The FFAS mission area is comprised of three agencies: the Farm Service Agency, Risk Management Agency, and Foreign Agricultural Service.

Statements by the Administrators of the FFAS agencies, which provide details on their budget and program proposals for 2006, have already been submitted to the Committee. My statement will summarize those proposals, after which I will be pleased to respond to any questions you may have.

Mr. Chairman, the programs and services of the FFAS mission area provide the foundation for the Department's efforts to "enhance economic opportunities for American agricultural producers", one of the five primary goals in the Department's strategic plan. The wide range of services provided by our agencies—price and income support, farm credit assistance, risk management tools, and trade expansion and export promotion programs—are the bedrock for ensuring the economic health and vitality of American agriculture.

FFAS also plays an important role in protecting and enhancing the Nation's natural resource base and environment, another of the Department's strategic goals, by providing critical support for improved management of private lands.

The 2006 President's budget supports continuation of these diverse activities and ensures our continued efforts on behalf of America's agricultural producers. Although the budget does contain proposals for savings in both discretionary and mandatory programs as part of government-wide efforts to reduce the deficit, it fulfills our priorities of promoting and enhancing the economic opportunities of our farmers and ranchers and for protecting the environment.

FARM SERVICE AGENCY

The Farm Service Agency (FSA) is our lead agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. Producers rely on FSA to access farm programs such as direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and certain conservation programs, such as the Conservation Reserve Program (CRP). Because FSA is the prime delivery agency for most of the major farm assistance programs, the budget places a priority on maintaining and enhancing FSA's ability to provide efficient, responsive services to our producers.

Farm Program Delivery

The 2002 Farm Bill required FSA to undertake the massive task of implementing a complex set of new farm programs within a short time period, and the agency met that challenge successfully and with distinction. With the major workload associated with Farm Bill implementation having been completed, FSA recently has faced other program implementation challenges that have required the full commitment of agency resources. Last October, the President signed a disaster assistance bill that included more than a dozen programs and $2.9 billion for farmers and ranchers who were affected by drought and other weather-related problems in 2003 and 2004. Sign-up for crop disaster assistance began March 14th, and payments began by March 30th. FSA also has implemented an emergency relief program, supported with $600 million of section 32 funds, for Florida's citrus, nursery, and vegetable growers who were affected by three hurricanes last year.

Also enacted last October was legislation containing the so-called tobacco buy-out provisions that has major consequences for the Federal tobacco program. Under those provisions, transition payments will be made to tobacco quota holders and producers, ending all elements of the Federal tobacco price support program effective with the 2005 crop. FSA is now actively engaged in the steps needed to implement the legislation as quickly and efficiently as possible. Sign-up for the transition payment program began on March 14th and will continue through June 17th.

The 2006 budget is designed to ensure the agency's efforts can move forward. It provides a total program level for FSA salaries and expenses of nearly $1.4 billion, a net increase of $70 million above 2005. The requested level will support a ceiling of about 5,500 Federal staff years and 10,300 non-Federal staff years. Staff levels have been reallocated among FSA's program activities to reflect the decreased workload associated with farm income program support and other areas, while accommodating rising workload needs for conservation and other programs. Permanent full time non-Federal county staff years are estimated to remain unchanged from this year's level, while temporary staff years are reduced with the completion of disaster assistance activities.

FSA is taking other actions designed to improve their services on behalf of America's producers. Among the most important of these are information technology (IT) improvements, including the adoption of web-based applications that allow farmers to sign up for programs, as well as receive payments, on line. This reduces the paperwork burden significantly and provides for more timely receipt of payments. By 2006, FSA expects all of its major programs will be web-based and available on-line.

FSA also continues to implement Geospatial Information Systems (GIS) and Global Positioning System technology that will provide increasingly better services in the future and should result in significant long-term savings. Funding for FSA IT modernization and related GIS initiatives has been provided in the Common Computer Environment account managed by the Department's Chief Information Officer.

Finally, FSA is making considerable progress in reaching out to its small farm and minority constituency base. In January, final guidelines were implemented that provide reforms to ensure fair representation for socially disadvantaged farmers and ranchers in county committee elections. This has been complemented by expanded communication and outreach activities to increase the number of minority and women nominees in the election process.

Commodity Credit Corporation

Domestic farm commodity price and income support programs are financed through CCC, a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including the CRP and certain programs administered by the Natural Resources Conservation Service. In addition, CCC funds most of the export programs administered by the Foreign Agricultural Service.

In 2004, as a result of strong prices and a healthy farm economy, CCC net expenditures declined 39 percent below the previous year to $10.6 billion. For 2005 and 2006, CCC outlays are expected to increase significantly due to recent large crops that have contributed to growing supplies and weakened prices. CCC outlays are now projected to reach $24.1 billion in 2005 and then decline to $19.8 billion in 2006.

The President's budget includes a number of proposals to reduce the level of farm spending consistent with the government-wide goal of reducing the Federal deficit. These proposals are designed to work within the existing structure of the 2002 Farm Bill and achieve savings over the next 10 years. The proposals, which are spread across the entire agricultural production sector, include reducing commodity payments across the board by 5 percent; basing marketing loan benefits on historical production; tightening payment limits; lowering dairy program costs while extending the Milk Income Loss Contract program for 2 years; and reinstituting a 1.2 percent marketing assessment on sugar processors.

These proposals are expected to save $587 million in 2006 and $5.7 billion over 10 years. The majority of the savings is achieved through the across-the-board reduction in program payments.

The budget also proposes to limit the CCC bioenergy incentive program to $60 million, similar to the limitation of $100 million that applies to the 2005 program. An assessment of this program has found that additional incentives for ethanol are less critical than other Federal assistance, including tax credits and production mandates and that greater emphasis should be placed on incentives for biodiesel production rather than ethanol.

Conservation Programs

The 2002 Farm Bill provided for significant growth in the Department's conservation programs. The CRP, which is funded by CCC and administered by FSA, is the Department's largest conservation/environmental program. The Farm Bill extended CRP enrollment authority through 2007 and increased the enrollment cap by 2.8 million acres to a total of 39.2 million acres.

As of the end of December, CRP enrollment totalled 34.7 million acres. Another 1.2 million acres were accepted in the 29th general signup in 2004 and will be enrolled once contracts are finalized. Once that step is completed, the CRP will have reached more than 90 percent of the total acreage authorized in the Farm Bill.

Our current baseline assumptions are that CRP acreage will increase gradually to 39.2 million acres by 2008 and remain at that level through 2015.

Farm Loan Programs

FSA plays a critical role for our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers. For 2006, 70 percent of direct farm ownership loans are reserved for beginning farmers and 20 percent are reserved for socially disadvantaged borrowers, who may also be beginning farmers.

The 2006 budget includes funding for about $937 million in direct loans and $2.9 billion in guarantees. We believe these proposed loan levels will be sufficient to meet demand in 2006.

The 2006 budget also maintains funding of $2 million for the Indian Land Acquisition program. For the Boll Weevil Eradication loan program, the budget requests $60 million, a reduction of $40 million from 2005. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to fund fully those eradication programs operating in 2006. For emergency disaster loans, the budget requests $25 million. About $175 million is currently available for use in 2005, and a portion of that is likely to carry over into 2006. The combined request and anticipated carryover are expected to provide sufficient credit in 2006 to producers whose farming operations have been damaged by natural disasters.

RISK MANAGEMENT AGENCY

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation's agricultural producers. It provides risk management tools that are compatible with international trade commitments, creates products and services that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2004, the crop insurance program provided about $46 billion in protection on over 221 million acres, which is about 3 million acres more than were insured in 2003. Our current projection is that indemnity payments to producers on their 2004 crops will be about $2.9 billion which is about $1 billion less than in 2003. Our current projection for 2006 shows a modest decrease in the value of protection. This projection is based on the Department's latest estimates of planted acreage and expected declines in market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2004.

The 2006 budget requests an appropriation of "such sums as are necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase.

Despite the successes of the crop insurance program, more can be done to improve its effectiveness. One of the overarching goals of the crop insurance program has been the reduction or elimination of ad hoc disaster assistance. However, in recent years Congress has passed four disaster bills covering 6 crop years and costing the Government about $10 billion. Therefore, the budget includes a proposal to link the purchase of crop insurance to participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. This level of coverage is nearly double the amount of protection provided at the catastrophic level.

Additionally, participants in the Federal crop insurance program would contribute to the President's deficit reduction program. The budget includes several proposals that would reduce subsidies paid to producers and approved insurance providers. In total, these changes are expected to save about $140 million annually beginning in 2007.

In addition, the budget includes a general provision that would provide $3.6 million in mandatory funds to continue data warehousing and data mining activities authorized in the Agricultural Risk Protection Act of 2000 (ARPA). ARPA provided $23 million in mandatory funds for a variety of purposes, including data mining; however, that funding expires in 2005. Data mining is an instrumental part of the Department's efforts to combat fraud, waste, and abuse in the crop insurance program. In its first year of operation, data mining is estimated to have prevented the payment of about $94 million in potentially fraudulent claims and assisted in the identification and recovery of about $35 million in claims that should not have been paid.

Salaries and Expenses

For salaries and expenses of the Risk Management Agency (RMA), $88 million in discretionary spending is proposed, an increase of $17 million from the 2005 level of about $71 million. This net increase includes additional funding for IT, increased staff years to improve monitoring of the insurance companies, and pay costs.

RMA has an aging IT system; the last major overhaul occurred about 10 years ago. At that time, the crop insurance program offered seven plans of insurance covering roughly 50 crops and providing about $14 billion in protection. In 2004, protection was offered through 20 plans of insurance covering 362 crops, plus livestock and aquaculture, and providing over $46 billion in protection.

Several major changes also have occurred over the years in the way producers protect their operations from losses. In 1994, there were no plans of insurance which offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection and nearly 62 percent of the premium collected is for revenue based protection. In addition, ARPA authorized the development of insurance products to protect livestock. RMA has implemented several new livestock price protection products. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on an aging system.

ARPA also instituted new data reconciliation, data mining, and other anti-fraud, waste, and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases which increases data storage costs and processing times and increases the risk of data errors.

The development of the new IT system will result in some additional up-front costs to the Government because we will be required to finance both the developmental costs as well as the increasingly expensive maintenance costs of the legacy system. However, once the new system is operational, the legacy system will be eliminated, and a substantial reduction in maintenance costs is projected.

Finally, I would note that the budget for RMA includes a request for 17 additional staff years. This increase will provide RMA with the additional resources necessary to monitor the financial and operational condition of the companies participating in the crop insurance program. In 2002, American Growers', the Nation's largest crop insurance company, failed. RMA, in concert with the Nebraska Department of Insurance, did a tremendous job of ensuring that both the producers' and the Government's interests were protected, indemnities paid, and policies transferred to other insurance providers. The additional staffing will help to ensure that a similar failure does not occur in the future.

FOREIGN AGRICULTURAL SERVICE

I would now like to turn to the international programs and activities of the FFAS mission area. As Secretary Johanns highlighted in his recent testimony before the Committee, expanding trade is critically important for the economic health and prosperity of American agriculture. Expanding international market opportunities and promoting trade are among the most important means the Department has to enhance economic opportunities for our farmers and ranchers.

We have made solid progress during the past year in our market expansion activities. Central to these efforts is the Framework Agreement on agriculture that was reached last July by Members of the World Trade Organization (WTO) as part of the current round of multilateral trade negotiations. The agreement incorporates key U.S. objectives for the negotiations and provides strong principles for further liberalization of agricultural trade. Much work remains to be done to translate those principles into actual reform commitments, however, and we are working very diligently to achieve consensus among WTO Members on as many areas as possible by this summer. This should pave the way for a successful WTO Ministerial meeting next December in Hong Kong.

Regional and bilateral trade agreements provide another important avenue for opening new markets, and we continue to participate in the ambitious agenda that has been established for the negotiation of such agreements. During the past year, agreements were concluded with Australia, Morocco, Bahrain, five Central American countries, and the Dominican Republic. Negotiations are continuing with Panama, Thailand, three Andean countries, the five members of the Southern African Customs Union, the United Arab Emirates, Oman, and 34 countries that will comprise the Free Trade Area of the Americas.

Our efforts to maintain and expand market access are not limited to the negotiation of new agreements, however. Trade agreement monitoring and compliance activities are vital if we are to protect U.S. trade rights.

During the past year, among our highest priorities has been our work to recover access to markets for U.S. beef that were closed due to the December 2003 discovery of one case of bovine spongiform encephalopathy (BSE) in the United States. To date, we have recovered markets worth $1.2 billion, based on 2003 values. Most recently, Egypt opened its market to U.S. beef and beef products from animals less than 30 months of age.

The current focus of our efforts is restoring access to the Japanese market, and we are committed to reaching a resolution of this matter as soon as possible. In October, the United States and Japan reached agreements on the terms by which trade in U.S. beef would resume. Since that time, U.S. experts have traveled to Japan to provide additional technical explanations. We have worked across the Administration to apply pressure to convince the Japanese that they must open their market expeditiously. Last month, their Food Safety Commission adopted a new domestic standard excluding cattle 20 months of age and younger from mandatory testing. This is progress. We now need an expedited import review process to get the market reopened.

Salaries and Expenses

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities and is at the forefront of our efforts to expand and preserve overseas markets. Through its network of 78 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to the goal of expanding overseas market opportunities.

As the Committee may be aware, FAS is currently undergoing an extensive review of its activities, organization, and operations. Many factors have prompted this assessment, including the changing nature of the global agricultural trade and trade-related issues; the need for greater efficiency in the delivery of services to the public; and budgetary constraints stemming in large part from significantly increased overseas operating costs. Recent declines in the value of the dollar relative to other currencies, coupled with local wage and price increases at overseas posts, have created major challenges in managing the agency's overseas presence.

FAS has already taken steps to respond to these challenges. Earlier this year, the agency exercised buy-out and early-out authorities, approved by the Office of Personnel Management, to reduce staff levels at headquarters. In addition, its travel budget has been reduced by 50 percent, and promotional activities carried out by FAS overseas staff and other international programs have been sharply curtailed.

Even with the actions that have been taken thus far and further steps that are likely to result from the current organizational review, FAS will continue to face fiscal hurdles as it strives to maintain the services it provides to American agriculture. These factors were taken into account during development of the 2006 budget, with particular attention given to maintaining FAS' overseas presence so the agency can continue to represent and advocate for U.S. agricultural interests on a global basis.

The budget provides a program level of $152 million for FAS activities in 2006, an increase of just over $11 million above 2005. This includes funding to meet higher operating costs at the agency's overseas posts, including increased payments to the Department of State for administrative services that State provides at overseas posts.

Funding also is provided for FAS' contribution to the Capital Security Cost Sharing program. Under that program, which is being implemented this year, agencies with an overseas presence in U.S. diplomatic facilities will contribute a proportionate share of the costs of the construction of new, safe U.S. diplomatic facilities over a 14-year period.

The budget also requests funding to support an FAS presence in the new embassy in Baghdad, Iraq, as well as funding for increased agency personnel costs.

Export Promotion and Market Development Programs

FAS administers the Department's export promotion and market development programs which play an important role in our efforts to assist American producers and exporters take advantage of new market opportunities overseas.

The CCC export credit guarantee programs provide payment guarantees for the commercial financing of U.S. agricultural exports. Those guarantees facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available with CCC guarantees. For 2006, the budget projects a program level of $4.4 billion for CCC export credit guarantees.

For the Department's market development programs, including the Market Access Program and Foreign Market Development Program, the budget provides funding of $173 million. This is somewhat below the 2005 current estimate reflecting a proposal to limit the Market Access Program to $125 million. That proposal is intended to achieve savings in mandatory spending and contribute to government-wide deficit reduction efforts.

The budget also includes $52 million for the Dairy Export Incentive Program and $28 million for the Export Enhancement Program.

International Food Assistance

The United States continues to be the world's leader in global food aid efforts, providing over one-half of world food assistance. In support of our commitment to help alleviate hunger and malnutrition in developing countries, the supplemental appropriations package submitted by the President on February 14th includes a request for $150 million to support additional Public Law 480 Title II food donations to meet critical needs in Sudan and other emergency situations. It also requests funding for recovery and reconstruction activities in tsunami-affected countries and allows a portion of those funds to cover the cost of Public Law 480 Title II commodities used to respond after the tsunami.

For 2006, the budget continues our support for these efforts by providing a program level of approximately $1.8 billion for U.S. foreign food assistance activities, including $300 million that is being requested in the Foreign Operations Appropriations Bill.

The Public Law 480 programs remain the primary vehicle for providing U.S. foreign food assistance. The 2006 budget provides funding that would support a Title I credit and grant program level of $145 million. For Title II donations, funding is provided to support a program level of $964 million. These estimated program levels include unobligated funds carried over from previous years and projected reimbursements from the Maritime Administration for costs associated with meeting U.S. cargo preference requirements in prior years.

In the case of Title II, the level of appropriated funding requested has been reduced by $300 million below the level requested in recent annual budgets, and an equivalent level of funding is being requested in the Agency for International Development's (AID) International Disaster and Famine Assistance account to support emergency food assistance activities that will be administered separately by AID. This change is intended to expedite the response to emergencies overseas by allowing food aid commodities to be purchased more quickly and closer to their final destination, while increasing the total amount of commodities that can be procured to meet those emergencies.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget provides appropriated funding of $100 million, an increase of 15 percent above the 2005 enacted level. That funding will be supplemented by anticipated reimbursements from the Maritime Administration, and the total combined program level of $106 million is expected to support assistance for as many as 2.6 million women and children.

The budget also includes an estimated program level of $137 million for the CCC-funded Food for Progress program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries. The budget also assumes that donations of nonfat dry milk will continue under the authority of section 416(b) of the Agricultural Act of 1949. The total value of the commodity assistance and associated costs is projected to be $151 million.

Trade Adjustment Assistance

The budget includes $90 million for the Trade Adjustment Assistance (TAA) for Farmers Program, as authorized by the Trade Act of 2002. This program provides assistance to producers of raw agricultural commodities who have suffered lower prices due to import competition, and to fishermen who compete with imported aquaculture producers. In order to qualify for assistance, the price received by producers of a specified commodity during the most recent marketing year must be less than 80 percent of the national average price during the previous 5 marketing years. In addition, a determination must be made that increases in imports of like or competitive products "contributed importantly" to the decline in prices.

During 2004, the first full year of implementation, 12 petitions for TAA assistance were approved. Commodities that were certified for assistance included blueberries, Pacific salmon, shrimp, catfish, and lychees. The total program costs for 2004 are estimated at $16 million.

The deadline for submission of petitions for 2005 TAA assistance closed on January 31st. Thus far, TAA assistance has been certified for Pacific salmon fishermen in 2 States, shrimpers in 7 States, Concord juice grape producers in 3 states, black olive producers in California, and potato producers in Idaho. Additional petitions are currently under review, and decisions on their eligibility should be announced in the near future.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions that you and other Members of the Committee may have. Thank you.

PREPARED STATEMENT OF JAMES R. LITTLE, ADMINISTRATOR, FARM SERVICE AGENCY

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to present the fiscal year 2006 budget for the Farm Service Agency (FSA). Since we met last year, I am pleased to report that FSA has made substantial progress in a number of areas to enhance customer service. We are putting in place an infrastructure that will help us quickly respond to new legislation and provide better access to our programs and data for our customers and business partners. We have made great strides in reaching out to our small and disadvantaged constituency base and engaging our stakeholders to help us develop a new Strategic Plan that is aligned with the Secretary's plan, all designed to support productive farms and ranches that are competitive in global markets; promote a secure and affordable food and fiber supply; and conserve natural resources and enhance the environment.

This budget is fiscally responsible and proposes several measures to achieve savings in farm programs. It also includes a number of projects and initiatives designed to achieve substantial and systemic improvements that will position us for prompt implementation of the next farm bill or any other enacted legislation. Your support for the budget request will enable FSA to meet the challenges of a shifting economic environment and the influence of natural and man-made disasters. Before I begin addressing the details of the budget, I would like to comment on some of our recent successes, some of the initiatives we currently have underway, and some of the challenges we face.

Disaster Assistance

The past year provided us with tremendous challenges from Mother Nature, with record rainfall in parts of the country, a pervasive drought in the West, and the worst hurricane season in decades. In all cases FSA showed its colors and responded proactively to provide support in record time. The disaster assistance bill signed by the President on October 13, 2004, included more than a dozen programs and $2.9 billion for farmers and ranchers who have been affected by drought and other weather-related problems in 2003 and 2004, including damage caused by the devastating 2004 hurricanes and tropical storms that ravaged Florida, the Southeast and Eastern shore. Delivery of these programs has been a massive undertaking, which included implementing the Emergency Conservation Program in 12 days following passage of the bill that provided new funding. In total, this important legislation provided relief for losses of crops, livestock, dairy, cottonseed, and trees, including orchards, timber and pecans. In addition, FSA implemented an emergency relief program utilizing over $600 million from Section 32 funds for Florida's citrus, nursery, and vegetable growers who were especially impacted by back-to-back hurricanes Charley, Frances and Jeanne.

FSA is working diligently to implement all of these disaster programs as soon as possible. Signup for the Section 32 initiative began last October, with more than $315 million already paid out. Various other programs are being phased in; for example, the Tree Assistance Program began February 7 and the major Crop Disaster Program began March 14. I am pleased to note that these delivery times are consistent with previous ad hoc disaster programs, which have generally been implemented within 5½ months of enactment.

In addition, we continued the very successful Nonfat Dry Milk (NDM) Livestock Feed Assistance Initiative, which provided drought relief to foundation livestock producers in States hardest hit by drought. Surplus Commodity Credit Corporation (CCC) stocks of NDM, which have been denatured to prevent human consumption, are provided to participating States at a greatly reduced cost. Under the 2004 initiative, 135.8 million pounds of NDM, including some of the unused NDM from the 2003 initiative, was made available to eligible producers in 96 counties in Arizona, Idaho, Montana, Nebraska, Nevada, New Mexico, Oregon, Utah, and Wyoming.

Tobacco Transition Program

On October 22, 2004, President Bush signed into law the American Jobs Creation Act of 2004, which includes the Fair and Equitable Tobacco Reform provisions commonly referred to as the Tobacco Buyout. Under this statute, payments will be made to tobacco quota holders and producers, ending all aspects of the Federal tobacco support program, including marketing quotas and non-recourse marketing loans, effective with the 2005 crop. This is an historic event, Mr. Chairman, since the tobacco price support program has been in place since the 1930's and has defined a way of life for many of our Nation's small family farmers.

Current tobacco program requirements for the 2004 marketing year will remain in effect through the end of the 2004 marketing season, which ends June 30, 2005, for flue-cured tobacco and September 30, 2005, for all other types of tobacco. The funds required to pay for the transition, estimated to total $10.14 billion over a 10-year period, will be obtained through assessments on manufacturers and importers of all tobacco products sold in the United States. The payments to producers will be made in 10 equal annual installments beginning in 2005 and ending September 30, 2014.

A sign-up period began on March 14. Tobacco quota holders will receive payments of $7 per pound based on their basic quota at the 2002 marketing year level. Producers of quota tobacco will receive payments of $3 per pound based on their shares of risk in the 2002, 2003, and 2004 crops of quota tobacco. FSA is working aggressively to implement this historic piece of legislation as quickly and effectively as possible. We are also working diligently to put in place a comprehensive communication and educational strategy to ensure all farmers, especially minority and disadvantaged farmers, are aware of the program and informed about how to sign up and obtain their benefits.

Technology Modernization

Over the past year, FSA has moved aggressively and collectively to a more streamlined environment using state-of-the-art information technology. FSA made significant progress in moving our systems to a web-based environment, improving the way we do business, providing better access to our data for our customers and business partners, and improving customer service. In keeping with the President's Management Initiatives on making programs more accessible using today's technology, last April Secretary Veneman unveiled the USDA Customer Statement, which enables producers to view all their program information through one Web portal. According to the 2002 Census of Agriculture, approximately 48 percent of all farmers have access to the Internet, enabling them to check on their CCC payments, collections, debt, and IRS reporting, via the Web. FSA Web-based applications also allow farmers to sign up for the Direct and Counter-cyclical Payment Program on line and receive their loan deficiency payments on line, significantly reducing the paperwork burden and providing benefits more timely. In addition, other partners are being provided electronic access. For example, participating U.S. banks and exporters can now electronically submit registrations, evidence of exports, and notices of default under the General Sales Manager's Export Credit Guarantee Program.

To take advantage of USDA's and FSA's electronic commerce (e-commerce) programs, the FSA is encouraging all producers to sign up for the capability. Over the next several months, we will be conducting an extensive public relations campaign to promote e-commerce and its benefits. Through a substantial modernization effort, FSA expects that by 2006 all of its major programs will be Web-based and available on line to our customers and partners.

In addition to e-commerce, FSA, along with other USDA agencies, continues to implement Geospatial Information System (GIS) and Global Positioning System (GPS) technology. GIS and GPS are helping FSA staff more efficiently measure land features by allowing computer-generated maps to interact with databases that store information about the land and its characteristics and background. In collaboration with the Risk Management Agency (RMA), FSA has digitized 80–90 percent of our most critical component of GIS—the Common Land Unit, which is the smallest land unit or field. This is the first major step toward creating a common management information system that can be shared by FSA and RMA and tremendously reduce redundancies.

Conservation

This past year, FSA set new standards for the Conservation Reserve Program (CRP), which is the Federal Government's largest private lands conservation program, assisting farm owners and operators in conserving highly erodible and other environmentally sensitive land to improve soil, water quality, air quality, and wildlife resources. I will talk more about the Conservation Reserve Program in the "Budget Requests" section of this statement.

Program Outreach

Over the last year, FSA made great strides in reaching out to its small farm and minority constituency base with support from Secretary Veneman. Most importantly, on August 17, 2004, Secretary Veneman published in the Federal Register Proposed Uniform Guidelines for conducting FSA County Committee (COC) elections. The guidelines mandated reforms intended to ensure fair representation of socially disadvantaged farmers and ranchers on COCs. Detailed actions contained in the guidelines include improved outreach and communications; improved election procedures; nominations by the Secretary; and additional reporting and accountability requirements, which were implemented for the 2004 COC elections held December 6, 2004. FSA also launched a massive communications campaign in partnership with many minority and small farm organizations, with the specific goal to increase the numbers of minority and women nominees on COC election ballots. Analysis of the election data is under way, and FSA anticipates some positive results. In keeping with congressional intent, USDA will continue to review the results of the elections and determine what next steps are needed to ensure adequate minority representation on COCs.

Last year, FSA and the USDA Office of Civil Rights crossed a major milestone when it implemented the Minority Farm Register and sponsored several listening sessions to allow minority farmers to interact with top Agency officials to discuss their problems and ways to improve customer service. FSA has teamed with the Cooperative State Research, Education, and Extension Service (CSREES) to train minority-serving institutions to teach minority producers how to apply for farm loans and operate their farms more efficiently. The partnership between FSA and CSREES has been extremely proactive and should prove very beneficial in helping improve FSA's program delivery.

Budget and Performance Management System

As part of FSA's vigilance towards our mission and meeting the President's Management Agenda focusing on improved customer service, FSA has developed the framework for a new performance-based, results-focused Strategic Plan. Known as the Budget and Performance Management System (BPMS), this framework aims to improve Agency and individual performance, accountability, and decision-making; fully comply with President's Management Agenda objectives; and ensure a customer focus to all activities. To accomplish all this, FSA formed a BPMS Core Team representing all major Agency functions. The Core Team looked at everything FSA does to help farmers, ranchers, and agricultural partners as well as how FSA manages its employees. Over 450 external and internal stakeholders participated in the plan's development. The Strategic Plan focuses on what FSA will do; BPMS focuses on how the Agency will get it done. The BPMS involves a range of activities to ensure taxpayer dollars are directed to efficient and effective programs that get results. The cornerstone of BPMS is the new Strategic Plan.

BPMS is the vehicle that will help FSA meet its performance goals. Technology changes associated with BPMS will integrate all aspects of budget and performance and associated costs for improved decision-making and accountability to stakeholders and taxpayers. FSA has begun to examine requirements for fully costing the performance measures it uses to deliver results.

Organizational Efficiency

FSA is actively engaged in a comprehensive review of its operations and organization at all levels, including headquarters, State offices, and our 2,400 service centers. This review is necessary to better understand how to meet the demands of a dynamic and ever changing United States and world agricultural marketing system. FSA needs to better utilize current technology, encourage e-government and web-based programs, and expand GIS capabilities to improve customer service across all business lines. Our review is examining ways to make access to and delivery of our programs more efficient and at less cost, with the help of technology and a streamlined infrastructure.

Fiduciary Accomplishments

Fiscal year 2004 marks the third consecutive year in which FSA and CCC earned unqualified (clean) audit opinions for their activities, which have program levels exceeding $25 billion.

BUDGET REQUESTS

Turning now to the specifics of the 2006 Budget, I would like to highlight our proposals for the commodity and conservation programs funded by the Commodity Credit Corporation (CCC); the farm loan programs of the Agricultural Credit Insurance Fund; our other appropriated programs; and administrative support.

COMMODITY CREDIT CORPORATION

Domestic farm commodity price and income support programs are administered by FSA and financed through the CCC, a government corporation for which FSA provides operating personnel. Commodity support operations for corn, barley, oats, grain sorghum, wheat and wheat products, soybeans, minor oilseed crops, upland cotton and extra long staple cotton, rice, milk and milk products, honey, peanuts, pulse crops, sugar, wool and mohair are facilitated primarily through loans, payment programs, and purchase programs.

The 2002 Farm Bill authorizes CCC to transfer funds to various agencies for authorized programs in fiscal years 2002 through 2007. It is anticipated that in fiscal year 2005, $2.11 billion will be transferred to other agencies.

The CCC is also the source of funding for the Conservation Reserve Program administered by FSA, as well as many of the conservation programs administered by the Natural Resources Conservation Service. In addition, CCC funds many of the export programs administered by the Foreign Agricultural Service.

Program Outlays

The fiscal year 2006 budget estimates largely reflect supply and demand assumptions for the 2005 crop, based on November 2004 data. CCC net expenditures for fiscal year 2006 are estimated at $19.8 billion, down about $4.3 billion from $24.1 billion in fiscal year 2005. If the President's proposals for farm program savings are enacted, CCC outlays would decline by an additional $587 million in fiscal year 2006.

This net decrease in projected expenditures is attributable to decreases for crop, tree and livestock disaster payments, loan deficiency payments, and the Noninsured Assistance Program, partially offset by an increase in counter-cyclical payments.

Reimbursement for Realized Losses

CCC is authorized to replenish its borrowing authority, as needed, through annual appropriations up to the amount of realized losses recorded in CCC's financial statements at the end of the preceding fiscal year. For fiscal year 2004 losses, CCC was reimbursed $12.5 billion in fiscal year 2005.

Conservation Reserve Program

The Conservation Reserve Program (CRP), administered by FSA, is currently USDA's largest conservation/environmental program. It is designed to cost-effectively assist farm owners and operators in conserving and improving soil, water, air, and wildlife resources by converting highly erodible and other environmentally sensitive acreage, normally devoted to the production of agricultural commodities, to a long-term resource-conserving cover. CRP participants enroll acreage for 10 to 15 years in exchange for annual rental payments as well as cost-share assistance and technical assistance to install approved conservation practices.

The 2002 Farm Bill increased authorized enrollment under this program from 36.4 million acres to 39.2 million acres. Under the general signup that ended September 24, 2004, FSA accepted offers to bring nearly 1.2 million acres into the CRP. Also under the 2004 continuous and Farmable Wetlands Program (FWP) signup, a combined total of 275,000 acres was enrolled. We issued incentive payments totaling approximately $85 million under continuous signup, Conservation Reserve Enhancement Program (CREP), and FWP under the incentives program that began in May 2000 to boost participation. As of April 5, 2005, total CRP enrollment is 34.8 million acres, nearly 90 percent of the 39.2 million acres authorized under the Farm Bill.

However, a challenge lies ahead. In 2007, 16 million acres currently under CRP contracts are scheduled to expire, followed by another 6 million acres in 2008, 4 million acres in 2009, and 2 million acres in 2010. To ensure that the benefits of CRP continue, in August 2004 the President declared the Administration's commitment to full CRP enrollment and announced that FSA will offer early reenrollments and extensions of existing contracts. In addition, FSA encouraged public comment on CRP through a Federal Register notice. Over 5,100 comments were received, and FSA expects to complete its analysis and announce reenrollment and contract extension provisions later this year.

President Bush also announced the Northern Bobwhite Quail Initiative, aimed at creating 250,000 acres of habitat for the northern bobwhite quail and other upland bird species, and a wetland restoration initiative to restore up to 250,000 acres of wetlands and playa lakes located outside the 100-year floodplain.

The CREP is also a major initiative under CRP that seeks to address recognized environmental issues of States, Tribes, and the Nation. CREP is a voluntary program implemented through Memoranda of Agreement with partners, such as States, Federal agencies, and private groups. FSA currently has 30 CREP agreements with 25 States with over 1.7 million acres reserved for enrollment. The program is very popular with environmental and wildlife groups, in addition to States and private landowners. More than 600,000 acres are currently enrolled in CREP nationwide. Most recently, in March 2005, FSA launched a second new CREP project in Nebraska.

The fiscal year 2006 budget assumes general signups in fiscal years 2005 and 2006 to enroll approximately 1.0 million acres and 1.3 million acres, respectively. In each of fiscal years 2005 and 2006, we anticipate enrolling 450,000 acres under continuous signup and the CREP. About 50,000 acres are estimated to be enrolled in the FWP in fiscal year 2005 and 60,000 acres in fiscal year 2006.

Overall, CRP enrollment is assumed to gradually increase from 34.7 million acres at the end of fiscal year 2004 to 39.2 million acres by fiscal year 2008, and to remain at 39.2 million acres through fiscal year 2015, maintaining a reserve sufficient to provide for continuous signup and CREP.

FARM LOAN PROGRAMS

The loan programs funded through the Agricultural Credit Insurance Fund provide a variety of loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations.

The fiscal year 2006 Budget proposes a total program level of about $3.8 billion. Of this total, approximately $0.9 billion is requested for direct loans and nearly $2.9 billion for guaranteed loans offered in cooperation with private lenders. These levels should be sufficient to provide adequate funding for the neediest farmers and ranchers throughout the year.

For direct farm ownership loans we are requesting a loan level of $200 million. The proposed program level would enable FSA to extend credit to about 1,700 small and beginning farmers to purchase or maintain a family farm. In accordance with legislative authorities, FSA has established annual county-by-county participation targets for members of socially disadvantaged groups based on demographic data. Also, 70 percent of direct farm ownership loans are reserved for beginning farmers, and historically about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers. Recently, however, the reduced-rate provisions have not been utilized since regular interest rates are lower than the reduced rates provided by law. For direct farm operating loans we are requesting a program level of $650 million to provide approximately 14,775 loans to family farmers.

For guaranteed farm ownership loans in fiscal year 2006, we are requesting a loan level of $1.4 billion. This program level will provide about 4,800 farmers the opportunity to acquire their own farm or to preserve an existing one. One critical use of guaranteed farm ownership loans is to allow real estate equity to be used to restructure short-term debt into more favorable long-term rates. For guaranteed farm operating loans we propose an fiscal year 2006 program level of approximately $1.5 billion to assist over 8,500 producers in financing their farming operations. This program enables private lenders to extend credit to farm customers who otherwise would not qualify for commercial loans and ultimately be forced to seek direct loans from FSA.

We are particularly proud of all of our loan programs. As a matter of fact, since fiscal year 2000, our direct and guaranteed loans to minorities and women have increased every year. In fiscal year 2004, there was an increase in the percentage of direct loans to each minority group, and we set a record for guaranteed farm ownership loans.

In addition, our budget proposes program levels of $2 million for Indian tribe land acquisition loans and $60 million for boll weevil eradication loans. For emergency disaster loans, our budget proposes a program level of $25 million to provide sufficient credit to producers whose farming operations have been damaged by natural disasters.

OTHER APPROPRIATED PROGRAMS

State Mediation Grants

State Mediation Grants assist States in developing programs to deal with disputes involving a variety of agricultural issues including distressed farm loans, wetland determinations, conservation compliance, pesticides, and others. Operated primarily by State universities or departments of agriculture, the program provides neutral mediators to assist producers—primarily small farmers—in resolving disputes before they culminate in litigation or bankruptcy. States with mediation programs certified by FSA may request grants of up to 70 percent of the cost of operating their programs. Legislative authority expires at the end of fiscal year 2005; the Department plans to propose extending the program through fiscal year 2010.

For fiscal year 2005, grants have been issued to 34 States. With the requested $4.5 million for fiscal year 2006, we anticipate that between 30 and 34 States will receive mediation grants.

Emergency Conservation Program

Since it is impossible to predict natural disasters, it is difficult to forecast an appropriate funding level for the Emergency Conservation Program. No funding was provided for the program in 2002 or 2003; however, it continued to operate throughout the 2 fiscal years using unobligated funds carried forward, together with recoveries of unused funds previously allocated to the States.

For fiscal year 2004, the Consolidated Appropriations Act provided $11.9 million for use in southern California only. The Military Construction and Emergency Hurricane Supplemental Appropriations Act of 2005, Public Law 108–324, provided $150 million for ECP—$100 million in direct appropriation and $50 million transferred from CCC. These funds are available until expended and will be used to provide emergency cost-share assistance to producers who suffered losses due to natural disasters such as droughts; Hurricanes Charley, Frances, Ivan, and Jeanne; and tornadoes. As of April 5, $153.8 million has been allocated to 45 States. The fiscal year 2006 budget proposes no funding for this program.

Dairy Indemnity Program

The Dairy Indemnity Program (DIP) compensates dairy farmers and manufacturers who, through no fault of their own, suffer income losses on milk or milk products removed from commercial markets due to residues of certain chemicals or other toxic substances. Payees are required to reimburse the Government if they recover their losses through other sources, such as litigation. As of April 5, we have paid fiscal year 2005 DIP claims totaling $35,089 in four States.

The fiscal year 2006 appropriation request of $100,000, together with unobligated carryover funds expected to be available at the end of fiscal year 2005, would cover a higher than normal, but not catastrophic, level of claims. Extended through 2007 by the 2002 Farm Bill, DIP is a potentially important element in the financial safety net for dairy producers in the event of a serious contamination incident.

ADMINISTRATIVE SUPPORT

The costs of administering all FSA activities are funded by a consolidated Salaries and Expenses account. The account comprises direct appropriations, transfers from loan programs under credit reform procedures, user fees, and advances and reimbursements from various sources.

The fiscal year 2006 Budget requests $1.37 billion from appropriated sources including credit reform transfers, for a net increase of about $70 million over the fiscal year 2005 level. The request reflects increases in pay-related costs to sustain essential program delivery and increases in information technology investments to continue and enhance the modernization of FSA program and administrative systems. These increases are offset by decreases in both Federal and non-Federal county office staff years and operating expenses.

The fiscal year 2006 request reflects a ceiling of 5,474 Federal staff years and 10,284 non-Federal staff years. Temporary non-Federal county staff years will be reduced to 1,000 from the fiscal year 2005 level of 1,250 due to completion of disaster activities. Permanent non-Federal county staff years are estimated to remain at the 2005 level.

Federal staff years have a net decrease of 24 staff years. FSA has taken aggressive actions since fiscal year 2004 to reduce discretionary spending in order to live within available funding. In fiscal year 2005 these measures were supplemented by a reduction in the hiring ceiling which will culminate in a reduction of 39 staff years in fiscal year 2006. This reduction is offset by an increase of 15 staff years which will be devoted to outreach activities aimed at increasing program participation of underserved customers, with special emphasis on socially disadvantaged and/or limited resource farmers, women, and members of minority groups such as African Americans, Asian-Pacific Americans, Hispanics, and Native Americans.

Before closing I would like to note that support of FSA's modernization effort is also provided through the Department's Common Computing Environment account. Funding made available to FSA under this account will provide needed telecommunications improvements and permit us to continue implementation of GIS, which is so crucial to rapid and accurate program delivery.

Mr. Chairman, this concludes my statement. I will be happy to answer your questions and those of the other Subcommittee Members.

PREPARED STATEMENT OF A. ELLEN TERPSTRA, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to review the work of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs for fiscal year 2006.

To help position our agency to meet the challenges of the future, we are going through an intensive self-assessment. Many factors have driven our review. For example, the outbreaks of bovine spongiform encephalopathy (BSE) and, to a lesser extent, avian influenza (AI) have made us keenly aware of the changing nature of the trade issues that we confront on a daily basis. Since the Uruguay Round Agreement on Agriculture, trade disruptions have shifted from tariffs and quotas to a host of more complex issues requiring scientific expertise along with diplomacy. Issues surrounding biotechnology have underscored the need for different skills in order to be effective in negotiating and maintaining market access for our products.

The Administration's strategy of competition for trade liberalization has also greatly affected our work. Last summer, the Doha Development Agenda talks got back on track. We now have a blueprint for completing a final agreement on agriculture that lays out strong principles for liberalizing trade. Putting details to this blueprint is not easy. There will be several critical negotiating sessions in 2005, with a goal to achieve consensus on as many areas as possible by July. We recognize that we have a lot of ground to cover in the negotiations, but we are determined to take advantage of this once-in-a-generation opportunity for fundamental trade reform.

In addition to multilateral negotiations in the World Trade Organization, we are also negotiating several important regional and bilateral agreements. Last year alone, agreements were concluded with Australia, Morocco, Bahrain, five Central American countries and the Dominican Republic. We continue negotiations with Panama, Thailand, three Andean countries, the five members of the Southern African Customs Union, the United Arab Emirates, Oman, and the 33 countries that will be part of the Free Trade Area of the Americas.

We are also working to incorporate the principles of the President's Management Agenda into our strategic and operational plans with the goal of making FAS more results oriented. We are reviewing how we manage our workforce, what we can do to make our programs more accessible electronically, and how we can improve our financial management and performance at all levels of the agency.

Finally, fiscal realities have dictated that we conduct a top-to-bottom organizational review. The combination of rising expenses for our overseas offices as a result of the declining value of the dollar, increased Capital Security Cost Sharing assessments imposed by the Department of State (DOS), and the need to absorb rising salary costs has left us with a significant budget shortfall in fiscal year 2005.

To address this shortfall, we requested and received authority from the Office of Personnel Management for early-outs and buy-outs to reduce staff levels in headquarters. With this action, we have been able to reduce headquarters civil service staff levels by 6 percent. We have also imposed a 50-percent reduction in travel and sharply reduced our promotional activities conducted by FAS overseas staff and other international programs.

Thus, a combination of factors has created an opportunity to take a serious and extensive look at the work of our agency and how we can best meet the needs of our customers. We have consulted with Congress, our stakeholders, other government agencies, and our employees to set a new vision for the agency. We know that FAS needs to change to remain relevant in a dynamic global environment.

As part of our ongoing assessment, we are charting a course for FAS for the next 5 years. If we are successful, we envision that in 2010 FAS will be a leader in developing market priorities and strategies for our most important markets, both from a competitive perspective and from a market potential perspective.

Given our resource constraints we need to define what the agency will look like. We know that the agency's most distinct asset continues to be our overseas presence. Our overseas staff provides invaluable service through their in-depth knowledge of the country, its government, the market for our products, and the competition. As government officials, we have the unique capability to gain access to foreign officials on behalf of American agriculture.

But by 2010, FAS will be a smaller agency, sharply focused on market access and market intelligence. Our offices overseas will be smaller and may be in different locations. Even more than is the case now, offices will cover more than one country, and we will make better use of technology to improve our responsiveness and communications. Market access will be even more technical and scientific in nature than it is today, and market intelligence will be more targeted and forward looking.

FAS will continue to be USDA's lead agency for agricultural trade negotiations. We will focus on non-tariff trade barriers and continue to monitor other countries' compliance with international agreements. To build on our market intelligence and development strengths, we will position our resources strategically to support U.S. trade interests. Our trade capacity building activities will be targeted not only to facilitating trade and economic development, but also to promoting agricultural and food security worldwide.

In keeping with the President's Management Agenda, we are assessing our activities, both overseas and at headquarters, to determine which are inherently governmental and provide the maximum value to our customers. Our country-by-country review has a goal of prioritizing markets and activities and identifying where we can absorb reductions with the least impact. We are looking at market potential, market competition, the ease of doing business, the cost of each office, and appropriate staff levels. It is essential that we continue to work in areas where it is most difficult for our private sector to do business. We expect to announce the results of this review shortly. We are confident that the end result of our organizational review will be better, more effective service to U.S. constituents, our agricultural industry and producers.

Budget Request

Mr. Chairman, as I indicated earlier, FAS continues to experience significant fiscal pressures resulting from the declining value of the dollar abroad and rising staff costs.

However, the levels proposed in the President's budget will allow FAS to maintain current service levels and move toward our 2010 vision without degradation of service provided to our customers.

Our fiscal year 2006 budget proposes a funding level of $152.4 million for FAS and 982 staff years. This is an increase of $11.2 million above the fiscal year 2005 level and represents the funds needed to ensure the agency's continued ability to conduct its activities and provide services to U.S. agriculture.

The budget proposes an increase of $8.8 million for support of FAS overseas offices. The FAS network of 78 overseas offices covering over 130 countries is vulnerable to the vagaries of macro-economic events that are beyond the agency's control. The significantly weakened U.S. dollar and higher International Cooperative Administrative Support Services (ICASS) payments to DOS have caused base costs to increase sharply. Since 2002, the dollar has fallen 9 percent against currencies of our major markets.

Specifically, this increase includes:

—$5.4 million to maintain current services at the 78 FAS offices around the world, including $2.4 million for wage increases for locally employed staff; $900,000 for higher rents; and $900,000 for increases in all other in-country expenses including security, repairs, travel, and supplies. Additionally, an increase of $1.2 million will be required to meet higher ICASS payments to DOS.

—$2.7 million for the fiscal year 2006 Capital Security Cost Sharing Program assessment. In fiscal year 2005, DOS implemented a program through which all agencies with an overseas presence in U.S. diplomatic facilities will pay a proportionate share for accelerated construction of new secure, safe, and functional diplomatic facilities. These costs will be allocated annually based on the number of authorized personnel positions. This plan is designed to generate a total of $17.5 billion to fund 150 new facilities over a 14-year period. The FAS assessment is estimated to increase annually in roughly $3 million increments until fiscal year 2009, at which time the annual assessed level will total an estimated $12 million. This level is assumed to remain constant at that point for the following 9 years.

—$650,000 to support the FAS presence in the soon-to-be constructed embassy in Baghdad, Iraq, after an absence of nearly 20 years. FAS will have the lead on all USDA activities and projects in support of Iraq and its agricultural development. This will entail the entire range of market development, market access, and market intelligence tools available to FAS and its industry partners.

The budget also includes an increase of $2.4 million to cover higher personnel compensation costs associated with the anticipated fiscal year 2006 pay raise. Pay cost increases are non-discretionary and must be funded. Absorption of these costs in fiscal year 2006 would primarily come from reductions in agency personnel levels that would significantly affect FAS's ability to contribute to USDA's strategic goal of enhancing economic opportunities for agricultural producers.

Export Programs

Mr. Chairman, the fiscal year 2006 budget proposes $6.1 billion for programs designed to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries.

Export Credit Guarantee Programs

The budget includes a projected overall program level of $4.4 billion for export credit guarantees in fiscal year 2006.

Under these programs, which are administered by FAS in conjunction with FSA, the Commodity Credit Corporation (CCC) provides payment guarantees for the commercial financing of U.S. agricultural exports. As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

—$3.4 billion for the GSM–102 program;

—$5.0 million for the GSM–103 program;

—$1.0 billion for Supplier Credit guarantees; and

—$20.0 million for Facility Financing guarantees.

Market Development Programs

Funded by CCC, FAS administers a number of programs to promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For fiscal year 2006, the CCC estimates include a total of $173.0 million for the market development programs, $15 million below fiscal year 2005 levels and includes:

—$125.0 million for the Market Access Program;

—$34.5 million for the Foreign Market Development (Cooperator) Program;

—$10.0 million for the Emerging Markets Program;
—$2.5 million for the Quality Samples Program; and
—$2.0 million for the Technical Assistance for Specialty Crops Program.

International Food Assistance

The fiscal year 2006 budget continues the worldwide leadership of the United States in providing international food aid. In this regard, the fiscal year 2006 President's budget includes $1.8 billion for U.S. foreign food aid programs, including $300 million requested in the Foreign Operations Appropriations Bill. Programs funded through the Department of Agriculture include:

—$1.1 billion for Public Law 480 which is expected to support approximately 2.2 million metric tons of commodity assistance. For Title I, the budget supports a program level of $145.0 million, which includes $80 million in new appropriations. The balance will be provided through unobligated carryover balances and projected Maritime Administration reimbursements. The total program level will support approximately 540,000 metric tons of commodity assistance based on current price projections. For Title II donations, the budget provides for a program level of $964 million, which is expected to support 1.7 million metric tons of commodity donations. This includes an appropriation request of $885 million and $79 million in projected Maritime Administration reimbursements. While the fiscal year 2006 appropriation request has been reduced by $300 million from last year's request, an equivalent funding level has been included in the U.S. Agency for International Development's (USAID) disaster assistance account to support emergency food assistance activities. This change will allow food aid commodities to be purchased locally which will allow for a more flexible and timelier response to emergencies. Further, the resultant savings in ocean freight and distribution costs is expected to increase the total amount of commodities that can be procured.
—$137.0 million for CCC-funded Food for Progress. Funding at the proposed level is expected to support 300,000 metric tons of commodity assistance.
—$151.0 million for donations of CCC-owned nonfat dry milk under Section 416(b) authority. Under this authority, surplus commodities that are acquired by CCC in the normal course of its domestic support operations are available for donation through agreements with foreign governments, private voluntary organizations and cooperatives, and the World Food program. For fiscal year 2006, current CCC baseline estimates project a limited supply of surplus nonfat dry milk that could be made available for programming, and the budget assumes that 75,000 metric tons will be programmed.
—$106.0 million for the McGovern-Dole International Food for Education and Child Nutrition Program. This represents an increase of $15 million over the fiscal year 2005 current estimate and includes $100 million in new appropriations and an estimated $6 million in projected reimbursements from the Maritime Administration. Funding at this program level will assist an estimated 2.6 million women and children.

Export Subsidy Programs

FAS administers two export subsidy programs through which payments are made to exporters of U.S. agricultural commodities to enable them to be price competitive in overseas markets where competitor countries are subsidizing sales. The budget includes:

—$28.0 million for the Export Enhancement Program (EEP). World supply and demand conditions have limited EEP programming in recent years, and as such, the fiscal year 2006 budget assumes a continuation of EEP at the fiscal year 2005 level. The 2002 Farm Bill does include the maximum annual EEP program level of $478.0 million allowable under Uruguay Round commitments, which could be utilized should market conditions warrant.
—$52.0 million for the Dairy Export Incentive Program (DEIP), $46.0 million above the fiscal year 2005 estimate of $6.0 million. This estimate reflects the level of subsidy currently required to facilitate export sales consistent with projected United States and world market conditions and can change during the programming year as market conditions warrant.

Trade Adjustment Assistance for Farmers

Authorized by the Trade Act of 2002, the Trade Adjustment Assistance for Farmers program authorizes USDA to make payments up to $90.0 million annually to eligible producer groups when the current year's price of an eligible agricultural commodity is less than 80 percent of the national average price for the 5 marketing years preceding the most recent marketing year, and the Secretary determines that imports have contributed importantly to the decline in price.

This concludes my statement, Mr. Chairman. I will be glad to answer any questions.

PREPARED STATEMENT OF ROSS J. DAVIDSON, JR., ADMINISTRATOR, RISK MANAGEMENT AGENCY

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year 2006 budget for the Risk Management Agency (RMA). The Federal Crop Insurance Program plays an important role in assisting farmers to manage financial risks associated with yield and revenue shortfalls due to bad weather or other natural disasters. RMA continues to evaluate and provide new products and to promote the adoption of crop insurance as a risk management tool so that the Government can further reduce the need for ad-hoc disaster payments to the agriculture community. In 2006, current projections are that the program is expected to provide producers with more than $41 billion in protection on approximately 220 million acres through about 1.2 million policies.

The growth and effectiveness of the Crop Insurance Program is dependent on a reliable delivery system, insurance products that meet the needs of producers, investment in information technology to ensure the delivery system is timely, accurate and dependable, and adequate funding to support compliance and program integrity, product evaluation, maintenance and administration, and new product development.

To meet Crop Insurance Program requirements in fiscal year 2006, RMA has requested a budget that will provide the necessary funding to continue the growth of the program and ensure its effectiveness to meet the agricultural community crop insurance requirements and assure fiscal responsibility in the application of taxpayer's dollars. RMA's total fiscal year 2006 budget request is $3.3 billion. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) Fund is $3,162,979,000 and for the Administrative and Operating Expenses, the request is $87,806,000.

FCIC Fund

The fiscal year 2006 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet the contractual obligation to pay claims, to reimburse the private sector for expenses incurred in delivering insurance to farmers and ranchers, to provide premium subsidies to make crop insurance affordable, and to encourage the purchase of higher levels of protection. Of the total amount requested for fiscal year 2006, 67 percent is slated for premium subsidies. The current estimate of funding requirements is based on USDA's latest projections of planted acreage and expected market prices. The budget request includes $2.2 billion for Premium Subsidy, $781.4 million for Delivery Expenses, $137.5 million for estimated excess losses based on an overall projected loss ratio of 1.075, and $78.1 million for Agricultural Risk Protection Act of 2000 (ARPA) activities which includes $3.6 million to continue funding of Program Integrity initiatives under a General Provision in the 2006 Budget. ARPA provided RMA with mandatory funding to implement data mining and data warehousing to improve compliance and integrity in the crop insurance program. We estimate, in the first year of operation, data mining helped prevent nearly $94 million in improper payments and helped recover approximately $35 million in improper indemnities. The authority to use mandatory funds for data mining expires in fiscal year 2005. Therefore, the 2006 Budget includes language to provide $3.6 million to continue data mining and data warehousing activities.

To strengthen crop insurance, promote program expansion, and limit ad-hoc disaster payments, the 2006 Budget includes a proposal for legislation to take effect in 2007 that requires those that receive direct farm payments to purchase crop insurance. The proposal requires farmers growing program crops who receive farm program benefits to purchase insurance protection at a 50 percent, or higher additional coverage level, of their expected market value, or lose their farm program benefits. This change ensures a farmer's loss in a disaster will not be greater than 50 percent. This proposal will further reduce premium subsidies to crop insurance policyholders, as well as subsidies in total to the participating insurance companies. These changes will encourage greater personal responsibility of those who buy crop insurance to pay for their risk management tools and will encourage the companies to deliver crop insurance more efficiently. This Budget proposal is estimated to realize $140 million in savings to the crop insurance program beginning in 2007. The increased self-reliance encouraged by this proposal and the linkage of the availability of crop insurance to farm program payments are intended to enhance the operating efficiency of the program and reduce the need for ad-hoc disaster payments.

This proposal is expected to be submitted along with the other mandatory proposals for farm programs that support the President's Budget.

Administrative and Operating Expenses (A&O)

RMA's fiscal year 2006 request of $87.8 million for Administrative and Operating Expenses represents an increase of about $16.3 million from fiscal year 2005. This budget supports an increase for information technology (IT) initiatives of $12.2 million.

RMA's corporate IT systems need updating and other enhancements to take advantage of the latest technology and to ensure the IT component of the delivery system is reliable, accurate, and accessible. Billions of dollars in indemnity payments, premium subsidy, producer-paid premiums, and administrative reimbursement payments pass through this antiquated IT system each year. Therefore, I am duty-bound to continue to request increases in IT funding because the current IT infrastructure is long past its life cycle and is increasingly costly to run, cumbersome to maintain; and makes it difficult to ensure the security mandated by Federal law. The Agency's IT infrastructure supports the crop insurance program's business operations at the national and local levels, provides risk management products to producers nationwide and is the basis for validating, receiving and remitting reinsurance subsidy and other payments to private companies reinsured by the FCIC. RMA is using system and database designs originally developed in 1994. There have been few hardware and software upgrades since then, but the program has grown and evolved dramatically in the timeframe, and business process analysis and re-engineering of the entire business delivery system are needed to support current and future program growth. As stated in previous testimonies, without adequate funding of the IT requirements, the Agency cannot safely sustain additional IT changes required by new product development or changes in existing products. Future program expansion will increase the risk of system failure and possible inability to handle day-to-day processing of applications and indemnity payments.

Also included in the 2006 Budget is $1.0 million to expand the monitoring and evaluation of reinsured companies. RMA is, again, requesting funds to establish a systematic process of monitoring, evaluating, and auditing, on an annual basis, the performance of the product delivery system. These funds will be used to support insurance company expense audits, performance management audits and reinsurance portfolio evaluations to ensure effective internal and management controls are in place and operating for each reinsured company's business operations.

The 2006 Budget requests $1.8 million to support an increase of 17 staff years. This will raise RMA's employment ceiling from 568 to 585. A requested increase of 15 staff years is included to support the increased workload for the Compliance function. The additional staff years will provide the Compliance function the necessary support to address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers. In response to several OIG audit reports, RMA needs to establish a systematic process of auditing insurance providers to detect and correct vulnerabilities to proactively prevent improper payment of indemnities. RMA's studies suggest that additional resources in this area would provide a minimum of $4 dollars in reduced fraud cost for every dollar spent. The additional staffing will provide the necessary oversight to ensure taxpayers' funds are expended as intended.

In addition, 2 staff years are requested for the Office of Insurance Services to support good farming practice determinations and to support the process of evaluating claims resulting from questionable farming practices. ARPA requires RMA to establish a process to reconsider determinations of good farming practices. The Regional Offices of RMA's Insurance Services Division are in a unique position by virtue of their background in production agriculture, agronomy and related fields, and knowledge of local crops and growing conditions to effectively carry out the important function of managing the process by which good farming practices determinations are made. RMA data indicate assessments are infrequently made for uninsured causes of loss against a producer for failure to follow good farming practices. With approved insurance providers operating in an environment of risk sharing, there is a tremendous need for support and incentives for increased quality of loss adjustment, particularly in the good farming practices area to ensure that payments for losses are consistent with the requirements of Federal Crop Insurance Act. Again, it is expected the additional staffing in this area will be more than paid for by ensuring that loss payments are made in accordance with the requirement that good farming practices be used.

Lastly, an increase of $1.3 million is requested for pay costs. These funds are necessary to maintain required staffing to carry out RMA's mission and mandated requirements.

PROGRAM MANAGEMENT

Now, I would like to provide an update on some of our key initiatives and products:

—FCIC Board Activities
—Standard Reinsurance Agreement
—Pilot Programs
—Product Development and Non-Insurance Risk Management Tools
—Education and Outreach Program
—Agricultural Management Assistance
—Comprehensive Information Management System
—Program Integrity
—Other Initiatives

Under the direction of the FCIC Board of Directors (Board), RMA continues to promote an agenda to bring new and innovative insurance products to the agricultural community, to validate the utility of current insurance products, to ensure outreach to small and limited resource farmers, to promote equity in risk sharing, and to guard against waste, fraud and abuse within the program.

Through the private sector delivery system in crop year 2004, RMA provided approximately $46.7 billion of protection to farmers, and expects indemnity payments for crop year losses of approximately $3.1 billion. The participation rate for major program crops was approximately 83 percent. RMA continues to improve and update the terms and conditions of all crop insurance policies to better clarify and define insurance protection and the duties and responsibilities of the policyholder and insurance providers. The Board actions to accomplish program expansion have been somewhat restricted by budget constraints affecting available IT resources and additional staffing required to meet new administrative and program requirements brought on by ARPA. Given this constraint, within the funding appropriated for fiscal year 2004, the Board considered 44 action items during nine (9) meetings. There were six (6) new program submissions and 19 program modifications to existing insurance products. For example, the Board authorized the expansion of the Adjusted Gross Revenue—Lite (AGR-Lite) plan of insurance to all counties in Alaska, Idaho, Oregon, Washington State and North Carolina beginning with the 2005 crop year. Also, the Board approved the implementation of the Silage Sorghum Pilot and the Sugar Beet Stage Removal Option Pilot.

Standard Reinsurance Agreement (SRA)

The new SRA has been put in place, effective for the 2005 crop year. Key changes included a lowering of the A&O expense reimbursement, which will be implemented over the 2005 and 2006 reinsurance years. In addition, RMA has tightened the monitoring of SRA holders with respect to financial solvency and is strengthening ties with state regulators and the National Association of Insurance Commissioners (NAIC).

It should also be noted that, for reinsurance year 2005, RMA approved three new SRA holders, bringing the current number of reinsured companies to 16. Thus, 2005 has seen an increase in the insurance writing capacity of the Federal crop insurance program.

Pilot Programs

For crop year 2005, RMA has 36 pilot programs being offered. A list of those pilots programs is attached to my testimony (Exhibit 1). As these programs gain experience, RMA conducts evaluations to determine whether they may be converted to permanent programs and offered in counties where the crop is routinely grown. During 2004, RMA completed evaluations on seven (7) pilot programs including: cabbage, crambe, cultivated wild rice, mint, mustard, Group Risk Plan (GRP), rangeland and sweet potatoes. After consideration by the FCIC Board, cabbage, cultivated wild rice, mint and mustard pilots were approved for conversion to permanent programs. The Board directed RMA to revise the GRP, rangeland and sweet potato programs, which has been done, and both were approved as new pilot programs for the 2005 crop year. In addition, RMA currently is contracting for an evaluation of the Adjusted Gross Revenue pilot program.

Product Development and Non-Insurance Risk Management Tools

During fiscal year 2004, RMA awarded over $12 million in contracts to further program goals of expanding the number of crop insurance tools available to growers in the United States. Many of these contracts are directed at specialty crops which supports one of RMA's top priorities to develop effective risk management products for pasture, rangeland, and forage. In January 2004, RMA released a contract for research and development for pasture, rangeland, and forge, with the aim of serving the vital needs of livestock producers. RMA awarded four contracts to develop new approaches in various areas of the country to address this potential market.

The contracts encourage use of new and innovative technology, including a satellite based vegetative index; a satellite-based remote sensing imagery that will describe the seasonal growth dynamics of vegetation; and the use of a seasonal growth constrained rainfall index based on a combination of a weighted warm-season/cool-season indexing periods and the National Oceanic and Atmospheric Administration rainfall data system. These programs are targeted for Board consideration in 2005 and 2006, and potential availability for the 2006 and 2007 crop years.

Also, RMA has several active contracts underway which are focused on providing new crop insurance programs for some of the most significant non-insured specialty crops. Some of these include a new program for Florida Fruit Trees; a Christmas tree program feasibility study; development for fresh vegetables including asparagus, broccoli, carrots, cauliflower, celery, garlic, artichoke, lettuce-head, lettuce-leaf, lettuce-romaine, and spinach; Hawaii Tropical Fruits and Trees development is currently under consideration by the FCIC Board; feasibility of a revenue maple syrup program; a study by USDA's Economic Research Service evaluating the unique risks of the organic industry; research to determine the potential for development of a risk management tool for producers of crops subject to quarantine restrictions by a state or Federal agency; and research into the feasibility of developing a crop insurance program for Small Value Crops with an annual value of less than $50 million.

These are just a few of the product development initiatives underway to expand and improve the risk management tools for American agricultural producers.

Education and Outreach Program

For our educational efforts in 2004, a total of $4.5 million in cooperative agreements were established with state departments of agriculture, universities and non-profit organizations to benefit states that have been historically underserved in the Crop Insurance Program. Crop insurance education will be delivered to producers in Connecticut, Delaware, Maine, Pennsylvania, Rhode Island, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Utah, Vermont, West Virginia, and Wyoming. These cooperative agreements will expand available risk management information; promote risk management education opportunities, inform agribusiness leaders; increase emphasis on risk management; and deliver training on risk management to producers with emphasis on reaching small farms.

Additional education efforts were dedicated to reaching producers of specialty crops. A total of 41 partnership agreements were established at a cost of $5.3 million in 2004. These agreements will provide outreach to specialty crop producers to broaden their risk management education.

Also, outreach efforts were directed to providing risk management technical assistance to women, small and limited resource farmers, and ranchers. A total of 60 projects were funded in 2004 at a cost of $5.2 million.

Agricultural Management Assistance

In 2004, RMA provided $4.2 million in financial assistance to producers purchasing spring buy-up crop insurance policies in 15 targeted States. The primary goal of the program was to encourage producers to purchase higher levels of coverage, and to provide an incentive for new producers to insure. In 2004, RMA paid up to 15 percent of producers' out-of-pocket premium costs to encourage increased participation.

Overall, in the targeted States RMA has seen an increase in policies earning premium of about 7 percent. In addition, RMA estimates that the average coverage level elected by most targeted States is 70 percent, in contrast to 65 percent, for those states without a financial assistance program.

Comprehensive Information Management System

RMA is actively working on a project to implement Section 10706 of the 2002 Farm Bill to assist with the development of a Comprehensive Information Management System (CIMS) which will simplify and improve the storage and access to data on programs administrated by RMA and the Farm Service Agency (FSA). This project will provide a management information system that allows RMA, FSA and other USDA entities and insurance providers to process, share and report on approved common information.

The CIMS will be designed to: improve access by agricultural producers to RMA and FSA programs; improve and protect the integrity of the information collected; meet the needs of the agencies that require the data in the administration of their programs; improve the timeliness of the collection of the information; contribute to the elimination of duplication of information collection; lower the overall cost to the

Department of Agriculture for information collection; and achieve such other goals as the Secretary considers appropriate for the Agriculture community.

A contract has been issued for the system development; identification of business processes and data elements of RMA and FSA is in the final stage. The next phase involve the design and implementation the information system for storing, maintaining, accessing, and retrieving approved information by RMA, FSA, and USDA. The design will leverage and comply with USDA's enterprise architecture and common infrastructure.

Program Integrity

Risk Compliance managers have been concentrating on the mission-critical tasks of evaluating and improving new processes to prevent and deter waste, fraud, and abuse in the crop insurance program. Significant effort is dedicated to building and adapting, reporting and tracking feedback systems to complement and integrate the oversight mandates established by ARPA. During 2004, Risk Compliance initiated operation reviews of insurance providers to capture a program error rate and to assess reinsured company activities under the Standard Reinsurance Agreement. The Office of Management and Budget and the USDA, Office of Chief Financial Officer are in agreement that a quantifiable program error rate is a key measure in assessing program compliance/integrity.

Additional efforts have been dedicated to integrating data mining projects; exploring avenues to expedite the increase in sanction requests; and continuing to improve the Compliance case management and tracking system. These areas of responsibility have created a challenge for Compliance to accomplish current activities along with new requirements mandated by ARPA without the benefit of additional resources. Therefore, the fiscal year 2006 Budget includes 15 additional staff years for Risk Compliance to strengthen the front-end oversight of approved insurance providers and to address outstanding Office of Inspector General recommendations to improve oversight and internal controls over insurance providers. Also, included in this budget is a request for $1 million to establish a systematic process of auditing insurance providers to detect and correct program vulnerabilities to preclude the payment of improper indemnities.

In addition, given the success of the data mining and data warehousing activities to date, a provision is included in the 2006 Budget for $3.6 million to continue funding of data mining and warehousing activities. Under current ARPA legislation, funding provided to develop the data mining and warehousing systems expires in 2005. The 2006 Budget includes a General Provision to authorize funding under the FCIC Fund to support annual maintenance costs and upgrades in fiscal year 2006. As previously stated, approximately $94 million in improper payments were determined and $35 million in improper indemnities were received with the assistance of data mining and data warehousing capabilities.

Other Initiatives

Some of the other initiatives RMA began or accomplished in 2004 are: completion of the Basic Provisions; development of the Written Agreement Handbook; implementation of changes to Livestock Risk Protection for feeder cattle, fed cattle, and swine; and development of a handbook for Good Farming Practices.

CONCLUSION

RMA continues to make crop insurance protection useful to producers, research way to address multi-year losses, expand risk management education opportunities, provide outreach to limited resource farmers, stimulate development of insurance products and improve program integrity. Crop Insurance is a primary system of support to producers when natural disasters strike. This was made very evident when Florida experienced four hurricanes. In response to this situation, FCIC-approved insurance providers mobilized immediately to ensure timely payments of claims.

I urge you to approve this budget as submitted to allow RMA to continue to improve a Crop Insurance Program that is actuarially sound, meets producers' risk management needs at a cost which is fair to taxpayers, affordable to farmers and sufficient for delivery of the program through the private sector as established by Congress.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions.

EXHIBIT 1.—FCIC: CROP YEAR 2005 PILOT CROPS

	CROPS		PLAN		Comment
	Name	Code	Name	Code	
1	Alfalfa Seed	0107	APH	90	Also identified as: Forage seed
2	All Other Citrus Trees	0211	TDO	40	Florida
3	Avocado	0019	ARC	46	California
4	Avocado	0019	APH	90	Florida
5	Avocado Trees	0212	TDO	40	Florida
6	Barley	0091	IP	42	
7	Cabbage	0072	APH	90	
8	Carambola Trees	0213	TDO	40	Florida
9	Cherry	0057	FD	51	
10	Chili Pepper	0045	FD	51	
11	Clams	0116	AQDOL	43	
12	Corn	0041	IP	42	
13	Corn	0041	IIP	45	
14	Cotton	0021	IP	42	
15	Cultivated Wild Rice	0055	APH	90	
16	Fresh Market Beans	0105	DO	50	
17	Grain Sorghum	0051	IP	42	
18	Grapefruit Trees	0208	TDO	40	Florida
19	GRP Rangeland	0148	GRP	12	New crop code in 2005
20	Lemon Trees	0209	TDO	40	Florida
21	Lime Trees	0210	TDO	40	Florida
22	Mango Trees	0214	TDO	40	Florida
23	Mint	0074	APH	90	
24	Multiple Crops		AGR	63	But not AGR-Lite
25	Mustard	0069	APH	90	
26	Navel Oranges	0215	FD	51	California
27	Orange Trees	0207	TDO	40	Florida
28	Processing Cucumber	0106	FD	51	
29	Raspberry and Blackberry	0108	FD	51	Several other berries are 'types' in this policy
30	Silage Sorghum	0059	IAPH	96	
31	Soybean	0081	IP	42	
32	Soybean	0081	IIP	45	
33	Strawberries	0110	FD	51	
34	Sweet Potatoes	0185	APH	90	New crop code in 2005
35	Wheat	0011	IP	42	
36	Winter Squash	0065	DO	50	

Notes:
1. RMA will revise this list to reflect new or discontinued pilot programs.
2. Crop policies originally approved via the 508(h) mechanism are not considered pilots. Thus, CRC, RA, and GRIP are not considered pilots.

AGRICULTURAL ECONOMY

Senator BENNETT. Sounds pretty good, Dr. Collins. Does that mean that the Federal Government can spend less money?

Dr. COLLINS. Unfortunately, it does not, Mr. Chairman. Part of the reason it sounds pretty good is a very large increase in Government payments is built into this assessment of the farm economy.

Last calendar year, we spent about $14 billion in direct payments to farmers. This calendar year, we expect about $24 billion. So Government spending is up. That is helping the prosperity.

Senator BENNETT. Ten billion dollars?

Dr. COLLINS. About $10 billion, yes, sir. Likewise, we see that in our estimates of the Commodity Credit Corporation budget, which you have. Last year, the CCC budget was about $10.5 billion. This fiscal year, the CCC budget will be about $24 billion. So that is up roughly $14 billion.

And that simply reflects the fact that our farm programs generally are price sensitive. Counter cyclical payments, marketing assistance loans depend on price levels. Price levels are down from last year's fairly high levels, and much of the increase is in marketing assistance loan spending.

I might add one final point to that——

Senator BENNETT. I won't take the time to get into that.

Dr. COLLINS. The numbers I have just given you for the CCC are in the President's budget. I might say that since the President's budget was developed, price prospects do look better for American agriculture. And I think we are running on a track to spend less on marketing assistance loans and counter cyclical payments than we had projected several months ago.

CAFTA

Senator BENNETT. Okay. Dr. Penn, CAFTA has stirred up a lot of passion. Do you want to make any comments about CAFTA and its benefits to U.S. agriculture? How would you address specifically the concerns raised by the sugar producers?

Dr. PENN. Thank you, Mr. Chairman, Senator Kohl. It is a pleasure to be with you again this year.

I appreciate the opportunity to say a couple of words about CAFTA because it is a trade agreement is very important in and of itself, and it is also very important for the long-term prosperity of U.S. agriculture. Should we fail to approve this agreement, it will cast a long shadow over our opportunities to expand market access through other trade agreements in the future.

This is one of those rare trade agreements where virtually every sector of agriculture stands to benefit. In essence, this agreement is leveling the playing field. As has been pointed out over and over, our markets are already open to the Central American countries and the Dominican Republic. Ninety-nine percent of all of their food and agricultural products already enter our market duty free.

So this agreement says that we are going to greatly reduce and eventually eliminate the tariffs on our products as they move into those markets. And, the benefits are widespread—across the grains, the oil seeds, the livestock sectors, virtually every segment of agriculture stands to benefit.

Now, concern has been expressed by our friends in the sugar industry, and they have made allegations that including sugar in this agreement would threaten the operation of the domestic sugar program. And, we just simply disagree with that. We think that is not the case.

We are, in this agreement, allowing a very small amount of additional sugar to enter the United States, 110,000 tons in the first year. That is about 1 percent of the total United States consumption of sugar. We consume something on the order of 10 million tons. That would let in 110,000 tons. And, that in no way jeopardizes the operation of the premium market that we have for our own growers in the United States.

The world price of sugar today is well under 10 cents a pound. The market in the United States is anywhere from 18 to 22 cents a pound. And admitting this additional sugar would not cause any decrease in the price, nor would it otherwise jeopardize the operation of the program.

So we think the concerns by the sugar industry are overblown, that this is a good agreement for agriculture. It is a good agreement for our country because it does provide opportunities for economic growth and development in some fledgling democracies right here in our hemisphere. We think that that is very important for our national security.

So we believe it is a good agreement overall, and it is one that I think you will see that most of the agriculture sectors support very broadly. Some 60 groups are actively supporting the passage of this agreement.

USDA PRESENCE IN IRAQ

Senator BENNETT. Okay. It is a very small item in the overall budget, but you have got $650,000 to establish a presence in Iraq. It has been 20 years since the USDA was in Iraq. What will the role be, just out of curiosity? I think that is an item that will attract some attention.

Dr. PENN. As you know, the U.S. Government is establishing a new embassy in Baghdad. And given the current situation there, this will be the largest embassy that the United States has in the world, given the nature of the security situation and the economic situation.

Senator BENNETT. We keep getting reminded of that when we look at the number.

Dr. PENN. Iraq was once a very attractive market for U.S. agriculture. In the late 1980s, before the earlier war in the Gulf region, we were exporting something approaching a billion dollars worth of food and agricultural products to Iraq. This included grains, oil seeds, poultry products, vegetable oils, dry beans.

We are slowly regaining some of that market. We have exported something on the order of 350,000 tons of wheat since hostilities ended the second time. And just this week, we announced that we have had reported to us the sale of 65,000 tons of rice. So we are very slowly making inroads into that market again, and we hope that those sales will continue.

The money that you note specifically is to establish a presence for the Foreign Agricultural Service in this new embassy in Baghdad. Under the new rules by the State Department, all agencies that have a presence in the embassy have to pay part of the capital cost——

Senator BENNETT. I see.

Dr. PENN [continuing]. Part of the operating cost, and this would support two or three Americans and the foreign nationals that round out the complement.

CONSERVATION ASSISTANCE

Senator BENNETT. I see.

Secretary Rey, first, I want to thank you on behalf of the people of Utah for the work that you have done with respect to the flood recovery in Washington County. We are facing another round of that. The normal flow-off is about 66,000 acre feet, and there are

240,000 acre feet in storage that could come down in the next 2 weeks. So——

Mr. REY. Almost makes you wish for fire season.

Senator BENNETT. Yes. Well, unfortunately, we had a fire, which denuded the watershed just before we had all of the rain. So we are grateful. And we thank you also for your efforts on the threatened and endangered species issues that we have to deal with out in the West. And you have been responsive, and I want the record to show that.

Now the President's budget requests a $37 million increase to help farmers and ranchers address regulatory burdens, primarily coming from EPA. And you and the NRCS has been in the position of being the main agency that confronts this. Should EPA bear some of these costs? Should we try to find a way to shift budget a little on this one?

Mr. REY. I think our joint recommendation—that is, both NRCS's and EPA's—would be that the NRCS staff has the technical capability and the better grassroots delivery system to assist farmers and ranchers to do this work. And whoever ends up bearing the cost of the work, the most effective way to deliver the services or the most cost-effective way to deliver the services is, I think, through NRCS's delivery system.

INVASIVE SPECIES

Senator BENNETT. Okay. Tell me about invasive species.

Mr. REY. The Administration's budget request includes a $10 million increase to use specifically for invasive species work. The Western States are a focus of that work, although it is not going to be exclusively in the West. And there are a couple of key species, like star thistle and salt cedar, where the focus that has been developed in coordination with all of the other agencies in the Interagency Invasive Species Working Group have agreed to.

Senator BENNETT. Are we winning that fight?

Mr. REY. I think on some species we are, and others we are not. I think the investment that we are proposing to you for 2006 will help materially on the species that we have selected for priority. But there are other concerns out there as well.

RESEARCH COORDINATION

Senator BENNETT. Okay. Dr. Jen—ARS, one of the most popular and attractive programs that USDA oversees. So you get to be the one everybody likes. They have got 22 national programs, some 1,200 research projects in this country and overseas. The research is related not only to USDA programs, although there are some that is exclusively there. But some to activities in the other parts of the Federal Government, such as food safety and nutrition and climate change and environmental programs.

Tell us about what you are doing to make sure there is not duplication between what you do and other university research activities and research in the other Federal agencies.

Dr. JEN. Mr. Chairman and Senator Kohl, thank you for the opportunity to be here.

In terms of trying not to have duplication of research effort, we operate under the National Science and Technology Council, which has a committee of science, committee of technology, and interagency work groups that coordinate the various type of Federal research among the department. So we participate in most of those activities and discussions that promote interagency cooperation.

More specifically, we cooperate with the National Science Foundation, NIH, and NASA, for example, to address various issues of common interest.

Within USDA, we have program areas in CSREES and ARS that are planning together, so that the ARS research activity and the university grants from CSREES are complimentary.

RURAL HOUSING PREPAYMENTS

Senator BENNETT. Thank you.

Secretary Gonzalez, I think you will probably hear from Senator Kohl about some of the rental assistance and activities in the rural areas. He has a great interest in that. So I will pass over it fairly quickly.

But I want to focus on one aspect. The recent report to the administration on the condition of Section 515 housing indicates that most of the units are not in danger of prepayment, but they do need repair and renovation. And the total, according to the report, is $2.6 billion.

Do you anticipate that any of the funds sought for vouchers will be used for future renovations of these projects? If not, why not?

Mr. GONZALEZ. Thank you, Chairman Bennett, and thank you, Senator Kohl.

There are two new developments in our multi-family program from the time we met last year. First the courts have made a determination that the owners have a right to prepay. Fortunately, Rural Development took the initiative by initiating the comprehensive property assessment, which we have shared with the committee on both the House and the Senate side.

Essentially what the study did was look inside the multi-family portfolio and specifically look at a sample of the 17,000 properties that are out there, and determined that about 10 percent of those properties could potentially prepay.

In addition to that, we looked at market conditions and property conditions. We did look at capitalization requirements in the future. We looked at the propensity to prepay. But specifically what we are focused in on right now in the 2006 budget is the $214 million, which is to establish a new tenant protection voucher for the tenants.

If you take that 1,700 properties that could prepay, you are talking about 50,000 families that essentially could be displaced from the properties as a result of market increases in rent. And so, the voucher program is designed specifically to protect the tenant either in the existing property if the owner prepays or at another property that is in our portfolio.

So the $214 million is designed specifically to meet what we estimate are one third of the 50,000 units, in 2006, that we expect to prepay. Those families potentially could be subject to market rent increases and, as a result, could be out on the street without housing.

Senator BENNETT. So you are not anticipating the money going for renovations?

Mr. GONZALEZ. No, sir.

Senator BENNETT. I see. Senator Kohl.

RENTAL ASSISTANCE PROGRAM

Senator KOHL. Thank you, Senator Bennett.

Mr. Gonzalez, I would like to talk a little bit more about the subject raised by Senator Bennett. I believe the landscape seems to be shifting here, and I am very troubled by what I believe I see happening.

First, as you know, developers have gone to court and won the right to prepay loans and convert low-income rental housing to market prices, which will effectively force rural poor, the people who are barely getting by as it is, out into a market where their housing costs will go up. And now USDA comes forward with a voucher program.

If we approve your voucher plan—and I don't think we will—USDA will, in effect, be giving a green light to those developers who want to hand tenants a voucher, tell them to find another place to live, and kick them out of their present housing. I understand that well enough. I don't intend to let that happen.

In 2003, I requested a GAO report about your rental assistance program, which found lots of problems, and we have been working together to fix that. And now you are going to turn into an uncharted area, where the rural housing service has no experience. I have to tell you I don't think this committee has enough confidence at this time to start off in a new direction, especially one about which I am concerned as much as I am about this program.

Furthermore, from what I have learned from you so far—and I have tried to get information about this without a great deal of success—it doesn't seem that you have much idea how this voucher program is going to work. It is not authorized. There is no detailed plan, and it looks like a $215 million carrot to shove low-income people into the street and let their homes go to more affluent families that can afford to pay market prices.

What is more, it appears that this proposal would let these vouchers be used anywhere. A person in rural Wisconsin, for example, could be given one of these vouchers, move to New York City, which isn't exactly a rural area, and use this voucher, funded through USDA's rural development programs. At least I see nothing that proves otherwise.

I always thought that USDA was there to help poor families in rural areas instead of working against them. So could you explain a little bit more what this program is, why it is being implemented, and what you are trying to do?

Mr. GONZALEZ. Yes, Senator. I will share with you the two new developments that I shared with Chairman Bennett. The courts have determined the owners have a right to prepay. The comprehensive property assessment did look inside the portfolio of the 17,000 properties to examine market conditions, property conditions, capitalization requirements for the future, and also the propensity to prepay.

Earlier, GAO had come out with a report indicating that closer to 25 percent of those properties could prepay. Our number, based on a sample of 333 properties, is lower at 10 percent. So you are looking at 1,700 properties versus the 4,000 properties GAO estimated potentially could prepay. Our number is rather conservative in terms of that. GAO has agreed on our number.

Our primary concern is protecting those tenants from being displaced by an increase in market rents. There is no program that has been established like this within Rural Development to protect tenants from and absorb that type of market rent increase.

Regarding rental assistance we have brought a forecasting tool online at the agency to greatly improve the accuracy of our forecasting. Those numbers are a lot more reliable, a lot more accurate. I would be glad to demonstrate the tool to staff and to you, Senator, and to the committee.

We do have a tool that is online now that improves the accuracy of the rental assistance forecasting.

Senator KOHL. But I don't see you disagreeing with the assertion that these properties are going to be converted into market price rental properties and that, as a result, those tenants are going to be forced out. I mean, that is a statement of fact, isn't it?

Mr. GONZALEZ. Well, based on the study, 10 percent of those properties are commercially viable and at least 50,000 families could be subject to being displaced.

Senator KOHL. Well, how is that a good thing?

Mr. GONZALEZ. It is not a good thing, but the voucher is designed specifically, to protect those tenants from being subject to that risk.

Senator KOHL. So they get a voucher, and they have to go and find housing elsewhere?

Mr. GONZALEZ. The voucher can be used in that property that was prepaid, or it can be used in another property within our portfolio.

Senator KOHL. What is the size of the voucher?

Mr. GONZALEZ. I believe I would have to get you the details on the size of the voucher. But I believe it is about $12,000 to $13,000.

Senator KOHL. Well, if you are not able to testify on the size of the voucher and its adequacy, then how could we discuss this program in light of these families that are going to be displaced and their ability or inability to find satisfactory housing?

Mr. GONZALEZ. Our primary focus is the accuracy of the study. We brought in an outside consulting group to look inside this portfolio. They determined that at least 10 percent is commercially viable and that could prepay, subjecting to 50,000 families to being put out in the street. That is a concern for this agency, and it is a concern for this Administration to protect those tenants.

HOUSING REVITALIZATION BUDGET REQUEST

Senator KOHL. Now I understand there is some kind of a consulting fee, $10 million in consulting fees that you are going to be spending. Please can explain to us what those fees are for, to sell what I regard as a bad idea. How do you intend to spend every penny of the $214 million that we are talking about?

Mr. GONZALEZ. Up to $10 million can be used to establish the Office for Revitalization and provide administrative support. That is up to $10 million. The balance of the $214 million will be spent on vouchers to protect the tenants.

Senator KOHL. And what is the $10 million going to be spent on?

Mr. GONZALEZ. To establish the Office of Revitalization for this multi-family portfolio and for administrative support.

Senator KOHL. Well, as you can tell from my comments, we are going to need to talk about this program in much greater detail before the 2006 mark-up, and I will look forward to working with you on ways in which we can at least satisfy my office and Senator Bennett's that we are heading off into a direction which is satisfactory. And I look forward to working with you on it.

Mr. GONZALEZ. Thank you, Senator.

MILK PRICES

Senator KOHL. Dr. Collins, when the Congressional Budget Office prepared its January baseline, it assumed $13.90, as you know, as the average all-milk price for 2005. On that basis, CBO estimated that the MILC program would cost $606 million in fiscal year 2005. The administration came up with an estimate of about $500 million. More recent data leads me to believe that those numbers are overstated. In your testimony, you predict an all-milk price of $15 rather than the $13.90.

We only have 5 months left in our fiscal year, and it seems very likely that the cost of milk will be much lower than either the CBO or OMB predictions. So what was the all-milk price assumption that resulted in the administration's January price estimate of $500 million for milk, and what market fundamentals have changed since that time?

Dr. COLLINS. That is a very good question, Mr. Kohl. Those estimates were based on November supply and demand conditions. I cannot remember the exact milk price that was back in the November forecasts of the department. But I think you are accurate in suggesting that the market has gotten a little tighter since then, and milk price prospects look better.

You indicated a CBO price forecast in a $13 per hundredweight range, and our forecast for 2005 is now up to $15 per hundredweight, which would make it the third- or fourth-highest price in history. Unfortunately, when we score budget proposals, we score them off the President's budget, just as CBO scores budget proposals off its March baseline. We always pick a point in time and stick with that throughout the entire reconciliation process.

So even though I think that markets look a little better than they did back in November of 2004, we will continue to score the MILC program extension off the President's February budget baseline.

VALUE-ADDED PROGRAMS

Senator KOHL. All right. For anybody and all on the panel, in spite of the trend toward market dominance by a handful of companies, a growing number of small, independent farmers are turning to the historic role of farmers as business men and women who are finding value-added niche markets, producing specifically to those markets, and finding it is not so much the size of the operation as it is the quality of the operation.

Does your department recognize that these opportunities for farmers exist? And if so, what are the farm credit, rural development, and research and extension agencies doing to support these niche developments and operations?

Dr. PENN. I can offer the perspective of our program area, Senator Kohl, in the Farm Service Agency. As you know, we have a very extensive farm loan operation, and there is a portion of the loan funds that is set aside by statute for small and disadvantaged farmers, for beginning farmers, and for minority farmers.

This is a program that is especially well suited to operations of the kind that you describe, those that have found a niche in the marketplace and realize that they can fill that niche without having to grow as large or operate like the commercial mainstream field crop or livestock operations. So those programs are almost ideally suited to the kinds of operations that you are describing.

Mr. GONZALEZ. Rural Development has for the last 3 years, as a result of the Farm Bill, a value-added producer grant program that essentially is creating new market opportunities for farmers and ranchers in terms of taking those raw commodities and adding value and, at the same time, increasing the bottom line, creating jobs, and helping diversify rural economies.

DIRECT MARKETING OF FARM PRODUCTS

Senator KOHL. All right. Gentlemen, I know that marketing falls under jurisdiction of Agricultural Marketing Service that will be represented here tomorrow. But for small farmers, especially those seeking these niche markets, marketing can make all the difference in the world in terms of success and failure.

Do you think direct marketing of farm products is a viable way to diversify rural investment? What are the keys to success in this style of marketing?

Dr. COLLINS. All right, Senator Kohl, I would be happy to take a shot at that.

VALUE-ADDED PROGRAMS

First of all, let me say on this whole question of value added in niche markets, the Department did send up a report on its value-added programs to the Congress. It was required in last year's appropriations bill, and we sent it up, I believe, in January of 2005. And it profiles across the Department all the different value-added programs we have.

If my recollection is correct, we have roughly $350 million a year in value-added programs, and we view value-added marketing just as you described it, from the research programs right through to the marketing programs of the Agricultural Marketing Service or the programs in Mr. Gonzalez's area.

Also as part of value added, we include our bio-energy and our bio-product work, which is substantial. It is not fully included in that $350 million, but our bio-energy work and bio-product work is running about $250 million, with Dr. Penn's area accounting for a big portion of that with the CCC bio-energy program.

DIRECT MARKETING OF FARM PRODUCTS

Specifically related to direct marketing—by "direct marketing," I think you mean farmers markets and things like that—certainly we have seen an explosion in growth of farmers markets over the past decade. And it has represented an excellent opportunity for producers to go directly to the consumer and get that additional value that might otherwise go to a middleman or to a processor.

And what we are seeing with the producers is quite a range of products that are being offered directly to the consumer. At USDA, we have a farmers market once a week in one of our parking lots, and we can see firsthand. We get farmers from Virginia and Maryland and surrounding areas that come in and directly market to USDA and other Federal employees where we are.

I think the number of farmers markets is now in the range of 3,000 across the United States, and we have seen a tremendous growth in that. So it is an opportunity, particularly for producers who can provide unique services to consumers.

I know I have met with farmers who have come in to USDA who, for example, have programs where they bring classrooms to their farms. And that acquaints students and students' parents with what they have on their farms, and then they market directly to the community, and that becomes a marketing vehicle for them.

So we are seeing a lot of ingenuity on the part of small and medium-size farmers to extract a higher value. If you have a small acreage, the only way you can get more income is to increase the margin. One way to increase the margin is to increase the price relative to the cost of production. The way you increase the price is by you, as the farmer, adding value. And that is what direct marketing can do.

SPECIALTY PRODUCTS

Senator KOHL. That is great. In Wisconsin, dairy farmers are forming, as you know, cooperatives to develop specialty cheese products. And this committee has provided funding to help these cooperatives establish marketing policies.

Aside from programs like the value-added agricultural product market development grants program of which I believe the President proposes to cancel $120 million in this next fiscal year, how can the department work with farm groups to promote specialty products and create new markets for these products? Tell me some of your own thoughts and experiences here.

Dr. COLLINS. Well, one thing I would offer is the efforts that the Department has made to promote the consumption of fresh fruits and vegetables. We have done that in a variety of ways. For example, through the school lunch program, we have had pilot fresh fruit and vegetable programs to increase the consumption of that.

You are going to hear from Under Secretary Bost tomorrow, and I think he could give you a range of activities that he has been involved in to try and promote the consumption of fresh fruits and vegetables. Again, going back to USDA as a firsthand experience, in our own cafeteria, we have replaced most of the vending machines that used to sell highly processed products, and we now have fruit and vegetable available in vending machines and fruit juice vending machines and so on.

So I think that there is—through our food assistance programs, we are making a substantial effort to try and promote increased consumption of such specialty products.

FARM PRODUCT EXPORTS TO CHINA

Senator KOHL. Good. I thank you. Senator Bennett?

Senator BENNETT. Dr. Collins, talk to us about China. That is a topic on everybody's mind. Sometimes they get demonized. You mentioned that in fiscal 2004, it was a $6 billion market for U.S. farm products. Where do you see that going? And specifically, what farm products do we export to China?

Dr. COLLINS. Well, specifically, we export a wide range of products. The biggest ones probably are soybeans and cotton. China has built a huge vegetable oil processing capacity over the last decade. They are now the world's largest soybean importer. This year, we estimate that they will import about 22.5 million tons of soybeans. We will——

Senator BENNETT. Are they attempting to grow any themselves?

Mr. COLLINS. They do grow soybeans. Their production has been increasing, but at a slow rate and cannot nearly keep up with their consumption, which is going to vegetable oil consumption and going to improving the feed rations of their livestock.

We expect that this year, we will set a record in soybean exports to China, probably in the neighborhood of 12 million tons, which is half of their total imports. And they account for one third of the world's imports of soybeans.

In addition to that, another issue that you mentioned, China being demonized, part of that has been related to the huge overall trade deficit we have with China. It is our largest single-country trade deficit. A part of that also relates to the huge increase we are seeing in imported textiles and apparel from China since January 1, when the Uruguay Round Agreement on textiles was fully implemented.

But that gives us another opportunity. China is an enormous consumer of cotton. This year, we think that they will import about 8 million bales of cotton. Over the next several years, we expect that that might grow to 10 to 12 million bales of cotton. They are our largest market for cotton, which is a high-value commodity, and so that represents a tremendous opportunity for our producers as well.

Yes, we are losing our domestic cotton consumption. Our textile mill capacity is slowly going overseas. But we are replacing that with increased exports of cotton.

I remember years ago, I didn't think we would ever see 10 million bales of cotton exported, and this year, I think we are going to do about 14 million bales. So it has been tremendous for the cotton industry to be able to capture that growing market in China.

China also this year is the world's largest importer of wheat. This is a commodity that they didn't generally import. In China, wheat has become a staple in the northern part of China. Rice is really the staple food in the southern part of China. And yet we have seen them become the world's largest importer of wheat, and we are supplying some of that.

Rice, as I said, is considered a staple in the southern half of China. That is a commodity they are probably most sensitive about preserving self-sufficiency in, and they have been right on the threshold of becoming a sizable importer of rice. They have had difficulty expanding their rice acreage. I don't foresee them becoming a big rice importer. It is possible on the margin they could increase their imports some, but I think you are going to see domestic efforts in China to increase their rice production.

So we have a broad range of commodities. We are providing some horticultural commodities to China as well. So there is quite a range of things that we are providing.

Dr. Penn reminds me that number-one item, hides and skins to China. So they are a market on the livestock side as well.

TEXTILE EXPORTS AND JOBS

Senator BENNETT. Okay. My own observation in another life here with the Joint Economic Committee, I think the textile manufacturers that we are going to lose have already been lost. And interestingly, what I think is happening is that China is taking jobs away from the Dominican Republic and Mexico and other places where they had taken these factories from us. And now the Chinese are undercutting them.

Dr. COLLINS. This is exactly what we are hearing from Caribbean area countries, for example. They fear the impact of China on their exports to the United States. They have had trade preferences with us in textiles. And now with the elimination of all quotas, those preferences disappear. Country of origin rules disappear, and they are very worried that China is going to displace their textiles in the United States market.

From a cotton point of view, China accounts for about 15 percent of our cotton textile and apparel imports. So it is not a huge player right now, but it is going to grow fairly sizably, I believe, over the next couple of years. I agree with your point that much of what potentially could be lost has already been lost. We lost the apparel industry a long time ago, the high labor cost industry.

Senator BENNETT. Yes.

Mr. COLLINS. And we do have a solid core of textile companies that produce very high-quality, high-value, technically advanced product. I can remember early in my career visiting a textile plant, and you could see the parking lot was full of cars. You go to a textile plant today, and there are three cars in the parking lot. You know, it is highly automated, and it has been able to improve its efficiency.

So we are going to have some market for U.S. textiles, but there is no question that the Chinese market share in our market will grow. And it will largely come at the expense of other countries around the world. And this is an issue for putting safeguards on Chinese textiles as well. Because when you do that, we might reduce the imports of China, but they might find their way into the United States through other countries.

Senator BENNETT. Yes. Well, you raise an interesting question. If China is a major importer of cotton, as they begin to take some of this work away from the Caribbean, are we going to see drop-off in our cotton sales in the Caribbean?

Mr. COLLINS. That is the worry, that we will see some decline in our exports of cotton.

Senator BENNETT. What is the net number? Is China going to import more than the Caribbean loses, or are we just going to shift?

Dr. COLLINS. I think right now we are expecting our exports will continue to grow, and that is because world consumption of cotton textiles will continue to grow. The size of the pie is going to get bigger.

CONSERVATION RESERVE PROGRAM

Senator BENNETT. I see. Well, that is good.

Dr. Penn, let us talk about CRP, and there are tens of millions of acres under the Conservation Reserve Program that have contracts that are set to expire in the next few years. What is FSA doing to make re-enrollment a smooth kind of process? Do you see any kind of bureaucratic bottlenecks or problems as those expirations come along?

Dr. PENN. Well, the situation is exactly as you note. I can't remember the exact numbers, but there is a relatively small amount of CRP acreage that expires in fiscal year 2006. But then I believe in 2007 and 2008, over 22 million acres begin to expire, and that is out of something on the order of 34 to 35 million that are enrolled now.

We have been thinking about this very seriously, noting that this is both a challenge and an opportunity. We have such a large amount of acreage coming out of the CRP and then needing to re-enroll or extend acreage to continue the 39.4 million acre mandate that was included in the 2002 farm bill. The question becomes do we want to change the profile, the character, or the nature of the land that is to be re-enrolled into this program?

We had a major conference last year in which a lot of these questions were raised. What is the objective of the CRP now in terms of its role in rural America, its role in protecting wildlife, its role in environmental enhancement? So there are a lot of objectives, and these continue to shift over time since the beginning of this program in 1985.

There is to be another major conference later this year to further explore these questions, to give all of the stakeholders—the people who are concerned about soil erosion, water quality, wildlife habitat, and agricultural production—an opportunity to state what their views are with respect to how to effectively manage this program. We have also put a notice in the Federal Register in asking for comments on options that we could consider as we begin to re-enroll this large acreage.

The President has made a commitment to keep the CRP fully enrolled as the statute allows, and the question then becomes: exactly how you want to manage the program, what are the objectives of the program, and where the land will come from. So we are exploring all of these questions that you raise as we get closer to the date when this large amount of acreage will expire.

PLANNING RESEARCH PROGRAMS

Senator BENNETT. All right. I applaud you for that. Whatever we can do to make the re-enrollment as smooth and seamless as possible. And that sounds like you are of the same mind.

Now, Dr. Jen, you may be the one to ask this question to, or others. The budget calls for a number of increases in areas of research and then eliminates $175 million in projects requested by Congress, many of which are research projects. In some places, the budget proposes increases in cuts to the same subject.

I will give you some examples. A $2 million increase in bio energy research is offset in part by cuts in bio mass and ethanol research. You have a $4.7 million increase in genomics while cutting livestock and fish genome mapping and soybean and cotton genetics. $15.3 million in food safety while cutting projects that deal with salmonella, Listeria, and E. coli. $1.5 million increase for obesity and healthier lifestyle, but $6.9 million in cuts for research in those same areas regarding child and elderly nutrition.

Share with us how you establish or how you set your priorities and why you had the particular set of winners and losers that you had. Was it just that if it came from the department, you like it, and if it came from Congress, you don't?

Dr. JEN. Absolutely not, Mr. Chairman.

Senator BENNETT. Oh, okay. I wanted to get that on the record.

Dr. JEN. Yes. We probably should get on the record that the department supports a portfolio of all types of research programs. Sometimes when you see the shifting from one area to another, it is somewhat misleading. We set our research agenda mainly on what is most important for the Nation.

Often, the title of the project, including other research that you say is cut is moved into a different program or within that program. So it is really not as clear cut as it appear. For example, for genomics or obesity, the total budget request for both these areas has increased in the President's 2006 budget.

Genomics research and obesity research are increased in the national research initiative. So the budget did not show very clear-cut increases in those areas. In terms of priority setting, we have a tremendous number of stakeholder listening sessions and interactions with industry, with university community and with Congress, congressional staff, and all the other stakeholders to set our priorities.

Senator BENNETT. You will not be particularly surprised if the committee adds some congressional earmarks, will you?

Dr. JEN. No, sir.

Senator BENNETT. Okay. All right. I will leave that.

Senator Kohl, do you have any additional questions?

Senator KOHL. Thank you very much.

BUDGET DECREASES

Mr. Gonzalez, this year, as before, the President proposes to cut direct loans and grants, which, as you know, target low-income communities, and increase guaranteed loan programs, which serve more moderate income communities. This proposal effectively cuts vital services to our country's poor citizens by reducing direct loans and grants for multi-family housing, water and waste, broadband grants, and other rural development programs.

USDA justifies this shift through its budget by emphasizing lower interest rates and a resulting lower subsidy. On its face, this sounds like a good idea to keep costs down. But America's most needy rural communities are too poor and neglected to participate in guaranteed programs. Furthermore, the public policy underlying direct loans and grants is precisely to support the Nation's most vulnerable rural communities.

Now with interest rates rising, will it not be more difficult for small rural communities to take on additional debt in lieu of grant funding? Did your proposal anticipate the possibility of higher interest rates? What effect does higher interest rates have on the ability to serve low-income families in the 502 guaranteed program?

Mr. GONZALEZ. Yes, Senator. I believe our direct program is down about $100 million. But our guaranteed program is up about $400 million. This demonstrates our commitment, the Administration's commitment to a home ownership society.

We are qualifying more people from our direct program and also graduating people from our direct program into our guaranteed program in the case of single-family housing.

In terms of our multi-family housing program, that number, in terms of direct loans, is down. We obviously are focusing right now on tenant protection. The other component on our guaranteed side is our 538 multi-family housing program has been doubled from $99 million to about $200 million. Combining that with tax credits, we feel we can still serve the low-income market.

Those are just examples of areas that even though there have been some reductions on the direct side, we still are adequately servicing residents in rural areas with our guaranteed programs.

NUTRIENT MANAGEMENT LAB IN MARSHFIELD, WI

Senator KOHL. All right. A question for Secretaries Jen and Rey. Along with volatile dairy prices, another major concern of dairy farmers is the cost of compliance with State and Federal environmental regulations. Two years ago, I helped bring together the ARS, NRCS, and the University of Wisconsin College of Agriculture and Life Sciences in a collaborative effort to meet this very challenge.

As a result, this committee has provided funding to establish a nutrient management laboratory at Marshfield, Wisconsin. Part of the construction of this facility is complete, and I hope we can provide funding for the last construction phase this year.

We have also encouraged the ARS Dairy Forage Laboratory and NRCS to work together as partners at the Marshfield facility to develop management practices and implement them at the farm level.

Mr. Jen or Mr. Rey, can you provide an update on this partnership between these research and conservation agencies?

Mr. REY. We have just developed a cooperative agreement for fiscal year 2005, to develop the laboratory, and we can submit a copy of that for the subcommittee's hearing record. On the NRCS side, we will continue to provide resources to the effort out of our base

2005 budget, and we will spend at least a half a million dollars to support the continuation of the project this year.

We will also provide staff support, with the aim of integrating animal diet and feed management technologies into overall conservation practices.

Dr. JEN. In terms of the Dairy Forage Research Laboratory, we have completed feasibility studies for the renovation/reconstruction of a new facility through the 2004 budget. We forwarded the report to the Congress.

Senator KOHL. Gentlemen, I understand that a draft memorandum of understanding between ARS, NRCS, and the Wisconsin College of Agriculture and Life Sciences has been forwarded to Washington. Has either agency taken further action on approval of this memorandum of understanding? And will you please notify me when such action is taken?

Mr. REY. After we complete the work, we will notify you and bring a copy up.

Senator KOHL. I would appreciate that very much. I thank you very much.

Senator Bennett, I have no further questions.

WATERSHED AND FLOOD PREVENTION OPERATIONS

Senator BENNETT. Okay. Secretary Rey, watershed and flood prevention operations zeroed out in the President's budget. You say in fiscal 2004, it provided nearly $1.5 billion in monetary benefits, created, enhanced, or restored 7 million acres of upland wildlife habitat, benefitted nearly 48 million people.

Okay. I realize this is a program that gets heavily earmarked up here, and that does have an impact on NRCS's ability to make decisions. But why do you want to zero it out?

Mr. REY. I think calling this program heavily earmarked is a bit of an understatement. It ranged in the last couple of years between being 100 percent and more than 100 percent earmarked. In the latter case, through an arithmetical error that required us to distribute the earmarks on a discounted fashion.

It is also a program that harkens back to the 1950s. A lot of watershed structures have been constructed during that period of time, and very little programmatic oversight has been provided to the program in perhaps the last 15 years. Running this program has become a considerable challenge to us. We don't always have the right staff with the right backgrounds and expertise in our State offices where the earmarked projects are provided.

So we think this program has reached a point where stepping back and taking a broader programmatic look at it is long overdue. That is something we would like to work with the Congress about. But, you know, to continue to administer it in this fashion is perhaps not the best use of what is admittedly tight budgets in a very difficult budget environment.

Senator BENNETT. Will you be surprised if there are some earmarks in this year's——

Mr. REY. I would be surprised if there weren't.

Senator BENNETT. Okay.

Mr. REY. That having been said——

Senator BENNETT. Yes.

Mr. REY [continuing]. The point——

Senator BENNETT. Can we work together a little more I think is what you are saying.

Mr. REY. Right.

Senator BENNETT. So that the earmarks are tied more to a budget plan or management plan that you might have in mind. Is that what you——

Mr. REY. Yes, and a programmatic look at where these two programs should go in the future. I don't think that their past performance, in terms of the construction of structural watershed improvements, is necessarily where their future should go.

Senator BENNETT. All right. I think that kind of dialogue is useful, and we will keep that in mind as we go forward.

Senator Kohl, you had one more question?

Senator KOHL. I thank you very much, Senator Bennett.

TRANSFER TO THE DEPARTMENT OF COMMERCE

Secretary Gonzalez, I see another part of the President's budget where you want to get rid of four Rural Development programs and send them over to the Department of Commerce. At Commerce, they will be lumped with 14 other programs from all over the Government, with one third less money than they now have. The Administration justifies this by saying the programs are duplicative, ineffective, and unaccountable.

Secretary Gonzalez, I understand you have been working with these programs for a number of years. Do you think, for example, that the Rural Business Enterprise Grant Program under your management has been ineffective? Because, frankly, your own press releases on the successes of these programs, this particular program, leave quite a different impression.

Mr. GONZALEZ. Thank you, Senator Kohl.

These programs obviously were "PARTED", were scored over the last year by OMB, and most of these four programs under Rural Development did not demonstrate results and, in some cases, were duplicative. I support the President's Strengthening America Communities Initiative in terms of consolidating the 18 programs administered by the five agencies. It makes a lot of sense, and it stands to benefit rural areas when you look at the larger pot of money that is being consolidated. Rural areas will have access to a substantial portion of a program level of $3.75 billion.

We have been working with the Administration, the White House and Department of Commerce to ensure that rural areas do have greater access to a larger pool of money. And, we have established—at least Commerce has established an advisory committee, people working to flesh out the details to make sure rural areas are well served. We had been working closely on this initiative. I am confident and have been assured by the Administration that rural areas will have a greater access to a larger pool of funding—not just $75 million, but $3.75 billion.

Senator KOHL. Well, I will respond to that. I believe this is, to some considerable extent, a shell game. As I see it, you all think that while you are moving all these pieces around, hopefully, no one is going to see that they are being gutted, and their traditional constituencies are going to have to start fighting each other. It will be Rural Development against CDBG and on and on.

Even if we let you merge these programs, a cut is a cut, no matter how deep, and someone is going to be a big loser. And as you know, these programs are quite important to poor rural communities. There seems to be a theme throughout the rural development budget that these type of communities are going to be singled out for continuing cuts. What is your response?

Mr. GONZALEZ. Sir, I can just assure you that we are, working with Commerce on this specific initiative, to ensure that rural areas are well served and they stand to benefit from this initiative. This is an opportunity for rural areas, as I see it. Rural Development being the advocate that it is, there is an opportunity here to provide the resources to rural areas.

I have offered up and proposed to the Department of Commerce our delivery system. It is unmatched. When the question becomes what can Rural Development do in terms of its infrastructure and delivery system, we can help promote and deliver this initiative. We can help educate communities on this initiative and help communities, provide technical assistance to make sure they do have access to this larger pool of money.

Senator KOHL. Well, if these programs are to be moved to Commerce, do you know for a fact that every single authorized activity at USDA will still be an authorized activity at Commerce? As you know, these are well-established programs at USDA, and how will you be able to know that they will continue to serve their traditional constituencies as they have in the past if, in fact, they are gone from your jurisdiction?

Mr. GONZALEZ. We are in the process of crafting legislation with Commerce and the Administration on this initiative. And we will be at the table with them to ensure that rural areas are addressed.

ADDITIONAL COMMITTEE QUESTIONS

A template for urban isn't a template for rural communities, and that is why we are at the table in terms of making sure we address issues like business formation. If there is an educational aspect to it, like No Child Left Behind Initiative or broadband access, we are going to be there to make sure that the right criteria are being used for rural communities.

Senator KOHL. I hope so.

Thanks, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO MARK REY

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

WATERSHED SURVEYS AND PLANNING PROGRAM

Question. The President's Budget has proposed $5,141,000 for the Watershed Surveys and Planning program. What will that level of funding allow NRCS to do?

Answer. This level of funding will allow NRCS to continue to fund the highest-priority ongoing studies and plans in each of the States. It will allow for completion of approximately 20 watershed studies and plans.

Question. Will new projects be initiated?

Answer. Initiation of new plans and studies will, at most, occur on a limited basis. If new plans or studies are initiated, they will be selected based on a ranking and funding process that evaluates the plans and studies according to their support of the NRCS Strategic Plan.

Question. Will existing projects be completed at this level of funding?

Answer. Again, this level of funding will allow NRCS to continue to fund the highest-priority ongoing studies and plans in each of the States. It will allow for completion of approximately 20 watershed studies and plans. There are over 130 studies and plans that have already been initiated.

Question. What level of funding would be required to complete all initiated work?

Answer. Planning costs can vary widely, depending on the complexity of the plan or study. It would require over $45 million to complete all studies and plans which have already been initiated.

Question. How many fiscal year 2005 watershed funding requests did NRCS receive for projects that were ready to be installed (local sponsors had obtained land rights, permits, etc. and NRCS was prepared with designs and ready for construction)?

Answer. In fiscal year 2005, NRCS received 278 funding requests from project sponsors totaling $201 million on projects ready for construction.

Question. Please provide the Committee with a list of all the watershed projects that have been planned and authorized for implementation, along with the dollar amount needed to provide the Federal technical and financial share of the costs.

Answer. The attached provides the requested funding total of $1.9 billion to complete the currently authorized watershed projects.

[The information follows:]

State	Program	Watershed project name	Requested funding
Alabama	Public Law 566	Pine Barren Creek	$2,000,000
Alabama	Public Law 566	Powell Creek	500,000
Alabama	Public Law 566	Big Nance Creek	2,000,000
Alabama	Public Law 566	Choccolocco Creek	3,765,000
Alabama	Public Law 566	Wilkerson Creek	312,000
Alabama	Public Law 566	Kelly-Preston Mill Creek	20,000
Alabama	Public Law 566	Harrison Mill-Panther Creeks	200,000
Alabama	Public Law 566	Camp Branch	300,000
Alabama	Public Law 566	Dry Creek	400,000
Alabama	Public Law 566	Pates Creek	180,000
Alabama	Public Law 566	Whitewater Creek	100,000
Alabama	Public Law 566	Short-Scarham Creeks	212,000
Alabama	Public Law 566	Town Creek-Dekalb	185,000
Alabama	Public Law 566	South Sauty Creek	100,000
Alabama	Public Law 566	Northeast Yellow River	1,000,000
Total			11,274,000
Alaska	Public Law 566	Delta Clearwater	5,951,600
Arizona	Public Law 566	Buckhorn-Mesa	2,560,100
Arizona	Public Law 566	Apache Junction-Gilbert	1,792,000
Arizona	Public Law 566	Williams-Chandler	1,280,000
Arizona	Public Law 566	White Tank Mountains	1,681,700
Arizona	Public Law 566	Eloy	2,630,409
Arizona	Public Law 566	New Magma	2,078,981
Arizona	Public Law 566	Hohokam	4,341,423
Arizona	Public Law 566	West Maricopa	755,044
Arizona	Public Law 566	Maricopa-Stanfield	5,148,479
Arizona	Public Law 566	San Carlos Watershed	5,819,964
Total			28,088,100
Arkansas	Public Law 566	Big Slough	17,036,000
Arkansas	Public Law 566	North Fork Of Ozan Creek	1,211,000
Arkansas	Public Law 566	Fourche Creek	841,000
Arkansas	Public Law 566	South Fourche	3,627,000
Arkansas	Public Law 566	Poinsett	2,919,000
Arkansas	Public Law 566	Upper Petit Jean	12,017,000
Arkansas	Public Law 566	Flat Rock Creek	1,779,000

State	Program	Watershed project name	Requested funding
Arkansas	Public Law 566	Ozan Creeks	6,563,000
Arkansas	Public Law 566	Little Red River	279,000
Arkansas	Public Law 566	Gould Portion Of Grady-Gould	1,400,000
Arkansas	Public Law 566	Buffalo River Tributaries	2,634,000
Arkansas	Public Law 566	Departee Creek	2,060,000
Total			52,366,000
California	Public Law 566	Central Sonoma	3,700,000
California	Public Law 566	Marsh-Kellogg Creek	3,750,000
California	Public Law 566	Beardsley	50,000
California	Public Law 566	Lower Llagas Creek	2,550,000
California	Public Law 566	Upper Llagas Creek	150,000
California	Public Law 566	Carpinteria Valley	1,000,000
California	Public Law 566	Lower Silver Creek	16,300,000
California	Public Law 566	Upper Stony Creek	125,000
California	Public Law 566	Indian Creek	50,000
California	Public Law 566	Elkhorn Slough	960,000
California	Public Law 566	Mccoy Wash	6,800,000
Total			35,435,000
Colorado	Public Law 566	Wolf Creek-Highlands	20,000
Colorado	Public Law 566	Trinidad Lake North	240,000
Colorado	Public Law 566	Limestone-Graveyard Creeks	340,000
Colorado	Public Law 566	Highline Breaks	1,560,000
Colorado	Public Law 566	Holbrook Lake Ditch	1,440,000
Colorado	Public Law 566	Six Mile-St. Charles Watershed	2,640,000
Total			6,240,000
Connecticut	Public Law 566	South Branch Park River	75,000
Connecticut	Public Law 566	Norwalk River	11,567,800
Connecticut	Public Law 566	Mill-Horse Brook	6,760,000
Connecticut	Public Law 566	Yantic River	4,526,200
Total			22,929,000
Delaware	Public Law 566	Upper Nanticoke River	25,000
Florida	Public Law 566	N. East Middle Suwannee River	309,680
Florida	Public Law 566	S. West Middle Suwannee River	309,680
Florida	Public Law 566	N. West Middle Suwannee River	309,680
Florida	Public Law 566	S. East Middle Suwannee River	309,680
Total			1,238,720
Georgia	Public Law 566	Tobesofkee Creek	1,985,424
Georgia	Public Law 566	Lower Little Tallapoosa River	350,562
Georgia	Public Law 566	Piscola Creek	822,794
Georgia	Public Law 566	Five Points Area	982,517
Georgia	Public Law 566	South Chickamauga Creek	1,068,475
Total			5,209,772
Hawaii	Public Law 566	Wailuku-Alenaio	2,000,000
Hawaii	Public Law 566	Waimanalo	1,750,000
Hawaii	Public Law 566	Waimea-Paauilo	9,232,000
Hawaii	Public Law 566	Lahaina	7,500,000
Hawaii	Public Law 566	Upcountry Maui	5,500,000
Hawaii	Public Law 566	Lower Hamakua Ditch	4,500,000
Total			30,482,000
Idaho	Public Law 566	Tammany Creek	3,673,495
Idaho	Public Law 566	Mission-Lapwai Creek	3,676,044

State	Program	Watershed project name	Requested funding
Idaho	Public Law 566	Bedrock Creek	432,550
Idaho	Public Law 566	Scott's Pond	4,804,166
Total			12,586,255
Illinois	Public Law 566	Little Calumet River	52,400,000
Illinois	Public Law 566	Lower Des Plaines Tributaries	30,300,000
Illinois	Public Law 566	Lake Bloomington	3,880,000
Illinois	Public Law 566	Lake Carlinville	825,000
Total			87,405,000
Indiana	Public Law 566	Muddy Fork Of Silver Creek	2,279,000
Indiana	Public Law 566	Mariah Creek	168,650
Indiana	Public Law 566	Pigeon Creek	160,590
Indiana	Public Law 566	Honey Creek	5,400,000
Total			8,008,240
Iowa	Public Law 566	Little Paint Creek	700,000
Iowa	Public Law 566	Bear Creek	3,300,500
Iowa	Public Law 566	East Fork Of Big Creek	200,000
Iowa	Public Law 566	West Fork Of Big Creek	2,300,000
Iowa	Public Law 566	Upper Locust Creek	2,900,000
Iowa	Public Law 566	East Fork Of The Grand River	14,800,000
Iowa	Public Law 566	Mill-Picayune Creek	3,300,000
Iowa	Public Law 566	Turkey Creek	3,700,000
Iowa	Public Law 566	Mosquito Of Harrison	2,800,000
Iowa	Public Law 566	Waubonsie Creek	250,000
Iowa	Public Law 566	Simon Run	640,000
Iowa	Public Law 566	Troublesome Creek	4,000,000
Iowa	Public Law 566	Twelve Mile Creek	1,050,000
Iowa	Public Law 566	Little River	500,000
Iowa	Public Law 566	A&T Long Branch	500,000
Iowa	Public Law 566	Long Branch	500,000
Iowa	Public Law 566	Soap Creek	5,500,000
Public Law 566 Total			47,440,500
Iowa	Public Law 534	Ltl. Sioux—Barber Hollow	150,000
Iowa	Public Law 534	Ltl. Sioux—Big Coon Creek	300,000
Iowa	Public Law 534	Ltl. Sioux—West Wolf Creek	150,000
Iowa	Public Law 534	Ltl. Sioux—Westside	450,000
Iowa	Public Law 534	Ltl. Sioux—Bitter Creek	1,050,000
Iowa	Public Law 534	Ltl. Sioux—Crawford Ck.	150,000
Iowa	Public Law 534	Ltl. Sioux—Leech Hollow	300,000
Iowa	Public Law 534	Ltl. Sioux—Little Whiskey	450,000
Public Law 534 Total			3,000,000
Iowa Total			50,440,500
Kansas	Public Law 566	North Black Vermillion	6,901,200
Kansas	Public Law 566	Upper Black Vermillion	1,925,000
Kansas	Public Law 566	Lower Elk River	843,000
Kansas	Public Law 566	Lyons Creek	1,274,800
Kansas	Public Law 566	West Sector Whitewater River	540,000
Kansas	Public Law 566	East Sector Whitewater River	990,000
Kansas	Public Law 566	North Sector Upper Walnut	1,156,250
Kansas	Public Law 566	Wet Walnut No. 2	1,035,375
Kansas	Public Law 566	Wet Walnut No. 3	2,910,000
Kansas	Public Law 566	Grasshopper-Coal Creek	3,097,900
Kansas	Public Law 566	Diamond Creek	5,400,000
Kansas	Public Law 566	Middle Creek (Morris)	881,250
Kansas	Public Law 566	Elk Creek	9,652,500
Kansas	Public Law 566	South Fork	978,000

State	Program	Watershed project name	Requested funding
Kansas	Public Law 566	North-Middle Forks Wolf	4,758,750
Kansas	Public Law 566	South Fork Wolf	2,567,000
Kansas	Public Law 566	Squaw Creek Lower Wolf	9,230,400
Kansas	Public Law 566	Doyle Creek	2,430,000
Kansas	Public Law 566	Upper Delaware And Tributaries	12,460,000
Total			69,031,425
Kentucky	Public Law 566	Obion Creek	4,000,000
Kentucky	Public Law 566	Big Muddy Creek	750,000
Kentucky	Public Law 566	Upper Tradewater River	10,000
Kentucky	Public Law 566	West Fork Of Mayfield Creek	1,200,000
Kentucky	Public Law 566	Red Lick Creek	900,000
Kentucky	Public Law 566	Banklick Creek	4,000,000
Kentucky	Public Law 566	North Fork Nolin River	900,000
Kentucky	Public Law 566	Pigeon Roost Creek	1,120,000
Kentucky	Public Law 566	Highland Creek	1,324,000
Kentucky	Public Law 566	Brashear's Creek	620,000
Kentucky	Public Law 566	Boone Fork	5,720,000
Total			20,544,000
Louisiana	Public Law 566	Cypress-Black Bayou	2,000,000
Louisiana	Public Law 566	Middle Tangipahoa	10,000
Louisiana	Public Law 566	Central Richland	1,500,000
Louisiana	Public Law 566	Bayou Bourbeux	200,000
Louisiana	Public Law 566	Bayou Duralde-Lower Nezpique	5,000,000
Total			8,710,000
Maine	Public Law 566	Kenduskeag Stream	1,000,000
Maine	Public Law 566	Meduxnekeag River	50,000
Total			1,050,000
Maryland	Public Law 566	Linganore Creek	100,000
Maryland	Public Law 566	Dry Run	350,000
Total			450,000
Massachusetts	Public Law 566	Baiting Brook	475,300
Massachusetts	Public Law 566	Clam River	
Total			475,300
Michigan	Public Law 566	Elk River	50,000
Michigan	Public Law 566	South Branch Kawkawlin River	60,000
Michigan	Public Law 566	Mud Creek	150,000
Michigan	Public Law 566	Swan Creek	450,000
Michigan	Public Law 566	Stony Creek	1,165,375
Total			1,875,375
Minnesota	Public Law 566	Kanaranzi-Little Rock	780,000
Minnesota	Public Law 566	Whitewater River	1,197,400
Minnesota	Public Law 566	Snake River	600,000
Minnesota	Public Law 566	Bear Creed	240,000
Total			2,817,400
Mississippi	Public Law 566	Chiwapa Creek	561,900
Mississippi	Public Law 566	Town Creek	7,000,000
Mississippi	Public Law 566	Tuscumbia River	1,622,500
Mississippi	Public Law 566	Tallahaga Creek	2,100,000
Mississippi	Public Law 566	South Delta	1,588,000

State	Program	Watershed project name	Requested funding
Mississippi	Public Law 566	Long Beach	4,375,000
Public Law 566 Total			17,247,400
Mississippi	Public Law 534	Ltl. Talla—Cane Creek	1,062,500
Mississippi	Public Law 534	Ltl. Talla—Cypress & Puss Cuss	5,160,000
Mississippi	Public Law 534	Ltl. Talla—Upper Tallahatchie	1,250,000
Mississippi	Public Law 534	Ltl. Talla—Ayers Cree	2,600,000
Mississippi	Public Law 534	Ltl. Talla—Duncan-Cane Creeks	2,125,000
Mississippi	Public Law 534	Ltl. Talla—Greasy Creek	750,000
Mississippi	Public Law 534	Ltl. Talla—Hell Creek	875,000
Mississippi	Public Law 534	Ltl. Talla—Locks Creek	250,000
Mississippi	Public Law 534	Ltl. Talla—Lower Tippah River	15,210,000
Mississippi	Public Law 534	Ltl. Talla—Ltl. Spring-Ochewalla Creeks	625,000
Mississippi	Public Law 534	Ltl. Talla—Mill Creek	3,746,000
Mississippi	Public Law 534	Ltl. Talla—Mud Creek	375,000
Mississippi	Public Law 534	Ltl. Talla—North Tippah Creek	2,431,000
Mississippi	Public Law 534	Ltl. Talla—Oaklimeter Creek	11,263,000
Mississippi	Public Law 534	Ltl. Talla—Okonatie Creek	250,000
Mississippi	Public Law 534	Ltl. Talla—Upper Tippah River	6,625,000
Mississippi	Public Law 534	Yazoo—Abiaca Creek	10,553,750
Mississippi	Public Law 534	Yazoo—Askalmore Creek	2,594,000
Mississippi	Public Law 534	Yazoo—Batupan Bogue	1,250,000
Mississippi	Public Law 534	Yazoo—Big Sand Creek	7,678,700
Mississippi	Public Law 534	Yazoo—Black Creek	5,000,000
Mississippi	Public Law 534	Yazoo—Black Creek (Delta)	7,500,000
Mississippi	Public Law 534	Yazoo—Buntyn Creek	910,000
Mississippi	Public Law 534	Yazoo—Burney Branch	5,260,000
Mississippi	Public Law 534	Yazoo—Bynum Creek	1,208,000
Mississippi	Public Law 534	Yazoo—Cane-Mussacuna Cks.	1,591,000
Mississippi	Public Law 534	Yazoo—Coldwater River	10,740,000
Mississippi	Public Law 534	Yazoo—Cypress Creek	3,012,500
Mississippi	Public Law 534	Yazoo—Davis Splinter Creek	1,935,000
Mississippi	Public Law 534	Yazoo—Eden Creek	63,000
Mississippi	Public Law 534	Yazoo—Fighting Bayou	531,300
Mississippi	Public Law 534	Yazoo—Hickahala Creek	1,188,000
Mississippi	Public Law 534	Yazoo—Hoffa Creek	3,412,500
Mississippi	Public Law 534	Yazoo—Hotophia Creek	500,000
Mississippi	Public Law 534	Yazoo—Hurricane-Wolf Creek	5,324,000
Mississippi	Public Law 534	Yazoo—Indian Creek-Bobo Bayou	1,250,000
Mississippi	Public Law 534	Yazoo—Johnson And Fair Cks	1,720,000
Mississippi	Public Law 534	Yazoo—Riverdale Creek	695,000
Mississippi	Public Law 534	Yazoo—Senatobia Creek	510,000
Mississippi	Public Law 534	Yazoo—Short Fork Creek	3,940,000
Mississippi	Public Law 534	Yazoo—Skuna River	5,818,800
Mississippi	Public Law 534	Yazoo—Strayhorn Creek	6,375,000
Mississippi	Public Law 534	Yazoo—Sledge Bayou	25,000
Mississippi	Public Law 534	Yazoo—Tillatoba Creek	19,885,000
Mississippi	Public Law 534	Yazoo—Toposhaw	3,125,000
Mississippi	Public Law 534	Yazoo—Upper Skuna River	6,820,000
Mississippi	Public Law 534	Yazoo—Yalobusha River	625,000
Mississippi	Public Law 534	Yazoo—Northern Drainage District	1,000,000
Mississippi	Public Law 534	Yazoo—North Tillatoha-Hunter	1,875,000
Mississippi	Public Law 534	Yazoo—Long Creek	1,250,000
Mississippi	Public Law 534	Yazoo—Otoucalofa Creek	2,806,000
Mississippi	Public Law 534	Yazoo—Pelucia Creek	4,535,000
Mississippi	Public Law 534	Yazoo—Perry Creek	2,231,000
Mississippi	Public Law 534	Yazoo—Persimmon Creek I	5,000,000
Mississippi	Public Law 534	Yazoo—Pigeon Roost Creek	12,578,700
Mississippi	Public Law 534	Yazoo—Piney Creek	16,250,000
Mississippi	Public Law 534	Yazoo—Potacocawa Creek	1,837,500
Mississippi	Public Law 534	Yazoo—Arkabutla Creek	3,512,300
Public Law 534 Total			228,513,550

State	Program	Watershed project name	Requested funding
Mississippi Total			245,760,950
Missouri	Public Law 566	East Fork Of Big Creek	2,400,000
Missouri	Public Law 566	Upper Little Black	750,000
Missouri	Public Law 566	Lower Little Black	4,500,000
Missouri	Public Law 566	Mozingo Creek	70,000
Missouri	Public Law 566	Troublesome Creek	5,200,000
Missouri	Public Law 566	Grassy Creek	2,900,000
Missouri	Public Law 566	Big Creek-Hurricane Creek	16,100,000
Missouri	Public Law 566	West Fork Of Big Creek	17,400,000
Missouri	Public Law 566	East Locust Creek	5,000,000
Missouri	Public Law 566	Upper Locust Creek	26,400,000
Missouri	Public Law 566	Town Branch	2,090,000
Missouri	Public Law 566	East Yellow Creek	10,000,000
Missouri	Public Law 566	Moniteau Creek	3,120,000
Missouri	Public Law 566	Marthasville Town Branch	750,000
Missouri	Public Law 566	Hickory Creek	3,000,000
Missouri	Public Law 566	East Fork Of The Grand River	2,600,000
Missouri Total			102,280,000
Montana	Public Law 566	Lower Birch Creek	3,279,000
Montana	Public Law 566	Mill Creek	175,000
Montana	Public Law 566	Buffalo Rapids	8,806,000
Total			12,260,000
Nebraska	Public Law 566	Gering Valley	767,000
Nebraska	Public Law 566	Papillion Creek	2,665,300
Nebraska	Public Law 566	Aowa Creek	6,700
Nebraska	Public Law 566	Tekamah-Mud Creek	6,700
Nebraska	Public Law 566	Middle Fork Maple Creek	6,700
Nebraska	Public Law 566	Bone Creek	6,700
Nebraska	Public Law 566	Stevens-Callahan (Camp Creek)	6,700
Nebraska	Public Law 566	Balls Branch	6,700
Nebraska	Public Law 566	Swan Creek	6,700
Nebraska	Public Law 566	Wolf-Wildcat Creek	6,700
Nebraska	Public Law 566	East-West-Dry Maple Creeks	10,000
Nebraska	Public Law 566	Middle Big Nemaha	40,000
Total			3,535,900
New Mexico	Public Law 566	Prop Canyon & Tributaries	740,000
New Mexico	Public Law 566	T Or C Williamsburg Arroyos	7,189,500
New Mexico	Public Law 566	Cottonwood-Walnut Creek	19,125,000
New Mexico	Public Law 566	Zuni Pueblo	16,487,500
New Mexico	Public Law 566	Espanola-Rio Chama	33,920,000
Total			77,462,000
New York	Public Law 566	Mill Brook	2,050,000
New York	Public Law 566	Nyc Ws (Ashokan)	96,100
New York	Public Law 566	Nyc Ws (Upper Cannonsville)	1,189,522
New York	Public Law 566	Nyc Ws (Lower Cannonsville)	1,204,339
New York	Public Law 566	Nyc Ws (Pepacton)	642,748
New York	Public Law 566	Nyc Ws (Neversink)	44,339
New York	Public Law 566	Nyc Ws (Rondout)	66,452
New York	Public Law 566	Nyc Ws (Schoharie)	362,009
Total			5,655,509
North Carolina	Public Law 566	Deep Creek (Yadkin)	6,000,000
North Carolina	Public Law 566	Crabtree Creek	2,000,000
North Carolina	Public Law 566	Swan Quarter	5,280,000
North Carolina	Public Law 566	Meadow Branch	787,830
North Carolina	Public Law 566	Upper French Broad River	617,840

State	Program	Watershed project name	Requested funding
North Carolina	Public Law 566	Newfound & Sandymush Creek	1,989,168
Total			16,674,838
North Dakota	Public Law 566	Square Butte Creek	7,400,000
North Dakota	Public Law 566	Upper Turtle River	470,000
North Dakota	Public Law 566	Taylor	40,000
North Dakota	Public Law 566	Belfield	4,650,000
North Dakota	Public Law 566	Colfax	1,573,000
Total			14,133,000
Ohio	Public Law 566	Rush Creek	1,185,000
Ohio	Public Law 566	Short Creek	6,275,000
Ohio	Public Law 566	North Hocking River	1,872,000
Ohio	Public Law 566	South Fork Licking River	6,820,000
Ohio	Public Law 566	Wills Creek	657,000
Ohio	Public Law 566	Four Mile Creek	3,915,000
Ohio	Public Law 566	Upper Blanchard River	1,050,000
Ohio	Public Law 566	Lower Stillwater River	120,000
Ohio	Public Law 566	Upper Stillwater River	120,000
Total			22,014,000
Oklahoma	Public Law 566	Sandy Creek	1,330,000
Oklahoma	Public Law 566	Leader-Middle Clear Boggy Creek	6,650,000
Oklahoma	Public Law 566	Upper Black Bear Creek	2,660,000
Oklahoma	Public Law 566	Upper Red Rock Creek	8,645,000
Oklahoma	Public Law 566	Upper Blue River	35,910,000
Oklahoma	Public Law 566	Tri-County Turkey Creek	1,330,000
Oklahoma	Public Law 566	Stillwater Creek	11,970,000
Oklahoma	Public Law 566	Lower Clear Boggy Creek	7,315,000
Oklahoma	Public Law 566	Salt-Camp Creek	9,310,000
Oklahoma	Public Law 566	Upper Bayou	8,645,000
Oklahoma	Public Law 566	Lower Bayou	2,660,000
Oklahoma	Public Law 566	Upper Elk Creek	8,645,000
Oklahoma	Public Law 566	Cotton-Coon-Mission Creek	4,655,000
Oklahoma	Public Law 566	Jack Creek	1,330,000
Oklahoma	Public Law 566	Lower Black Bear Creek	4,655,000
Oklahoma	Public Law 566	Lower Red Rock Creek	12,635,000
Oklahoma	Public Law 566	Okfuskee Tributaries	3,325,000
Oklahoma	Public Law 566	Brushy-Peaceable Creek	18,620,000
Oklahoma	Public Law 566	Lost-Duck Creeks	2,660,000
Oklahoma	Public Law 566	Cow Creek	7,980,000
Oklahoma	Public Law 566	Upper Muddy Boggy Creek	7,980,000
Oklahoma	Public Law 566	Kickapoo Nations	9,975,000
Oklahoma	Public Law 566	Robinson Creek	3,990,000
Oklahoma	Public Law 566	Hoyle Creek	665,000
Oklahoma	Public Law 566	Turkey Creek	6,650,000
Oklahoma	Public Law 566	Cambell Creek	1,995,000
Oklahoma	Public Law 566	Deer Creek	1,540,000
Oklahoma	Public Law 566	Dry Creek	8,645,000
Oklahoma	Public Law 566	Lugert-Altus	2,520,000
Oklahoma	Public Law 566	Little Beaver Creek	7,980,000
Oklahoma	Public Law 566	Wild Horse Creek	1,610,000
Oklahoma	Public Law 566	Middle Deep Red Run Creek	5,985,000
Public Law 566 Total			220,465,000
Oklahoma	Public Law 534	Washita—Bitter Creek	1,330,000
Oklahoma	Public Law 534	Washita—Bear Creek	665,000
Oklahoma	Public Law 534	Washita—Tonkawa Ck-Delaware Cks	4,788,000
Oklahoma	Public Law 534	Washita—Rush Creek	665,000
Oklahoma	Public Law 534	Washita—Sugar Creek	665,000
Oklahoma	Public Law 534	Washita—Spring Creek	2,394,000
Oklahoma	Public Law 534	Washita—Wildhorse Ck (Up & Lwr)	665,000

State	Program	Watershed project name	Requested funding
Oklahoma	Public Law 534	Washita—Ionine Creek	3,325,000
Oklahoma	Public Law 534	Washita—Little Washita	665,000
Oklahoma	Public Law 534	Washita—Maysville Laterals	1,995,000
Public Law 534 Total			17,157,000
Oklahoma Total			237,622,000
Oregon	Public Law 566	Lower Tillamook Bay	6,388,796
Oregon	Public Law 566	McKenzie Canyon Irrigation Project	2,325,000
Total			8,713,796
Pennsylvania	Public Law 566	Brandywine Creek	1,541,000
Pennsylvania	Public Law 566	Little Shenango River	1,172,500
Pennsylvania	Public Law 566	Neshaminy Creek	9,160,000
Pennsylvania	Public Law 566	Cross Creek	2,496,000
Pennsylvania	Public Law 566	Yellow Creek	60,000
Pennsylvania	Public Law 566	Oven Run	230,000
Pennsylvania	Public Law 566	Monastery Run	475,000
Pennsylvania	Public Law 566	Red-White Clay Creeks	2,122,000
Pennsylvania	Public Law 566	Glenwhite Run	290,000
Pennsylvania	Public Law 566	Tulpehocken Creek	2,840,000
Pennsylvania	Public Law 566	Little Toby Creek	587,000
Pennsylvania	Public Law 566	Mill Creek (Clarion/Jefferson)	3,465,000
Pennsylvania	Public Law 566	Indian Creek	2,960,000
Pennsylvania	Public Law 566	Wheeling Creek	150,000
Total			27,548,500
South Carolina	Public Law 566	Thompson-Westfield Creek	2,000
South Carolina	Public Law 566	North Fork Edisto	5,000
South Carolina	Public Law 566	Pickens-Anderson	4,000
South Carolina	Public Law 566	South Edisto	11,000
South Carolina	Public Law 566	Holly Hill	1,000,000
Total			1,022,000
South Dakota	Public Law 566	Lower Little Mn River-Big Stone Lake	50,000
Tennessee	Public Law 566	Reelfoot-Indian Creek	4,021,317
Tennessee	Public Law 566	Cane Creek	8,371,486
Tennessee	Public Law 566	Hurricane Creek	2,008,193
Tennessee	Public Law 566	Mcnairy-Cypress Creek	4,282,632
Tennessee	Public Law 566	North Fork-Forked Deer River	6,615,153
Tennessee	Public Law 566	Sulphur Fork Creek	307,236
Tennessee	Public Law 566	Big Limestone Creek	543,478
Tennessee	Public Law 566	Lick Creek (1995)	684,501
Tennessee	Public Law 566	Bear Creek (Scott)	1,635,494
Tennessee	Public Law 566	Hickory Creek	2,669,595
Tennessee	Public Law 566	East Prong Little Pigeon River	2,120,945
Total			33,260,030
Texas	Public Law 566	Caney Creek	5,400,000
Texas	Public Law 566	Salado Creek	45,000
Texas	Public Law 566	Pine Creek	2,400,000
Texas	Public Law 566	Attoyac Bayou	1,681,000
Texas	Public Law 566	Donahoe Creek	3,600,000
Texas	Public Law 566	Choctaw Creek	24,000,000
Texas	Public Law 566	Aquilla-Hackberry Creek	3,600,000
Texas	Public Law 566	Ecleto Creek	9,600,000
Texas	Public Law 566	Leona River	3,600,000
Texas	Public Law 566	Paluxy River	14,400,000
Texas	Public Law 566	Red Deer Creek	19,200,000
Texas	Public Law 566	Elm Creek (Cen-Tex)	33,600,000
Texas	Public Law 566	Elm Creek (1250)	9,600,000

State	Program	Watershed project name	Requested funding
Texas	Public Law 566	Los Olmos Creek	12,000,000
Texas	Public Law 566	Big Creek(Tri-County)	27,600,000
Texas	Public Law 566	Upper North Bosque River	90,000
Texas	Public Law 566	Bexar-Medina-Atascosa Counties Water Conservation.	475,000
Public Law 566 Total			170,891,000
Texas	Public Law 534	Trinity—Pilot Grove	32,400,000
Texas	Public Law 534	Trinity—Richland Creek	36,000,000
Texas	Public Law 534	Trinity—Salt Creek & Laterals	6,000,000
Texas	Public Law 534	Trinity—Village & Walker Creeks	13,200,000
Texas	Public Law 534	Trinity—Cedar Creek	54,000,000
Texas	Public Law 534	Trinity—Chambers Creek	42,355,000
Texas	Public Law 534	Trinity—Denton Creek	1,800,000
Texas	Public Law 534	Trinity—East Fork Above Lavon	9,600,000
Texas	Public Law 534	Trinity—Hickory Creek	7,200,000
Texas	Public Law 534	Trinity—Little Elm & Laterals	8,400,000
Texas	Public Law 534	Trinity—Lower E. Fork Laterals	1,200,000
Texas	Public Law 534	Trinity—Elm Fork	1,715,000
Texas	Public Law 534	Trinity—Big Sandy Creek	48,000,000
Texas	Public Law 534	Mdl Colorado—Upper Pecan Bayou	3,600,000
Texas	Public Law 534	Mdl Colorado—Southwest Laterals	1,800,000
Texas	Public Law 534	Mdl Colorado—Northwest Laterals	1,800,000
Public Law 534 Total			269,070,000
Texas Total			439,961,000
Utah	Public Law 566	Ferron	384,500
Utah	Public Law 566	Muddy Creek-Orderville	3,000
Utah	Public Law 566	Tri-Valley	3,360
Total			390,860
Vermont	Public Law 566	Black River	563,000
Vermont	Public Law 566	Lemon Fair River	534,000
Vermont	Public Law 566	Lower Winooski River	500,000
Vermont	Public Law 566	Barton And Clyde Rivers	1,820,000
Vermont	Public Law 566	Lower Lake Champlain	1,100,000
Vermont	Public Law 566	Lower Lamoille River	1,500,000
Total			6,017,000
Virginia	Public Law 566	Bush River	10,000
Virginia	Public Law 566	Cedar Run	22,313,939
Virginia	Public Law 566	Copper Creek	75,000
Virginia	Public Law 566	Cripple Creek	150,000
Virginia	Public Law 566	Hays Creek	150,000
Virginia	Public Law 566	Watkins Branch	4,083,622
Virginia	Public Law 566	Three Creek	250,000
Virginia	Public Law 566	Sandy Creek	100,000
Virginia	Public Law 566	Lick Creek	7,479,384
Virginia	Public Law 566	Ararat River	17,757,182
Virginia	Public Law 566	Chestnut Creek	800,000
Virginia	Public Law 566	Little Reed Island Creek	800,000
Virginia	Public Law 566	Buena Vista	7,975,146
Public Law 566 Total			61,944,273
Virginia	Public Law 534	Potomac—South River	2,140,196
Virginia	Public Law 534	Potomac—Linville Creek	200,000
Virginia	Public Law 534	Potomac—Lower North River	14,296,437
Public Law 534 Total			16,636,633

State	Program	Watershed project name	Requested funding
Virginia Total			78,580,906
Washington	Public Law 566	East Side Green River	1,900,000
Washington	Public Law 566	Omak Creek	1,000,000
Total			2,900,000
West Virginia	Public Law 566	Elk Two Mile Creek	8,956,000
West Virginia	Public Law 566	Mill Creek	5,432,000
West Virginia	Public Law 566	Upper Deckers Creek	3,000,000
West Virginia	Public Law 566	Little Whitestick-Cranberry Creeks	1,000,000
West Virginia	Public Law 566	Upper Tygarts	3,000,000
Public Law 566 Total			21,388,000
West Virginia	Public Law 534	Potomac—Lost River	29,866,000
West Virginia	Public Law 534	Potomac—Lunice Creek	9,069,000
West Virginia	Public Law 534	Potomac—Patterson Creek	2,898,000
West Virginia	Public Law 534	Potomac—New Creek-Whites Run	2,821,000
West Virginia	Public Law 534	Potomac—No. & So. Mill Creek	8,170,000
West Virginia	Public Law 534	Potomac—South Fork River	1,752,000
Public Law 534 Total			54,576,000
West Virginia Total			75,964,000
Wyoming	Public Law 566	Allison Draw	2,084,000
Wyoming	Public Law 566	Lingle Fort Laramie	5,436,955
Total			7,520,955
Pacific Basin	Public Law 566	Kagman	6,000,000
Pacific Basin	Public Law 566	Aui	13,000
Pacific Basin Total			6,013,000
National Total			1,887,972,931

Question. What is the number of watershed projects that are planned and authorized for implementation but cannot proceed because the Federal funding share is not available? How are you working at reducing the list of projects awaiting the Federal share of funding? What is the total dollar amount of unfunded Federal commitment in authorized, unfinished watershed projects?

Answer. There are 442 authorized watershed projects that have requested $1.9 billion. NRCS assists sponsors on an annual basis to evaluate the status of project implementation and determine the amount of funds needed to construct the conservation measures described in all authorized watershed projects. In fiscal year 2005, 92 watershed projects received fiscal year 2005 funds.

Question. How much did NRCS request during the fiscal year 2006 budget preparation?

Answer. NRCS' materials used in developing the fiscal year 2006 President's Budget are considered "pre-decisional" materials and, therefore, remain a matter of internal record.

Question. How much did USDA request during the fiscal year 2006 budget preparation?

Answer. USDA's budget materials used in developing the fiscal year 2006 President's Budget are considered "pre-decisional" materials and, therefore, remain a matter of internal record.

TECHNICAL AND FINANCIAL ASSISTANCE FUNDS

Question. If the Administration's budget is enacted, NRCS will have not technical or financial assistance funds on October 1, 2005. What is your plan to terminate/shut-down on all of the contractual obligations?

Answer. NRCS has about 2,000 contracts and agreements with sponsors and landowners to install project measures.

NRCS would not have funds available in fiscal year 2006 to provide technical services for construction inspection or contract management. These contracts can be terminated for the convenience of the Government under the contract terms. Terminating those contracts could result in the need to restore the site to pre-construction conditions. The termination costs plus the restoration effort may actually cost more than the completion of the project. In addition, it might take several months for the restoration effort to be completed for very large projects in which case the restoration work may actually impact on the next fiscal year with attendant needs for technical assistance funds and perhaps additional financial assistance funds to properly close out the projects. The true impact for many of the larger contracts will need to be determined on a case by case basis.

Long Term Contracts.—The Government does not have the unilateral right to terminate these land treatment agreements with individual landowners in accordance with the terms of the agreement. If NRCS does not have technical assistance funds to properly administer the agreements, we may have to make payments under the agreements for practices completed by the participants. If watershed funds are not available for NRCS technical assistance, other funds would need to be reprogrammed to administer the agreements and continue to make payments for completed practices until the existing agreements are completed.

According to statute, the Secretary may terminate any agreements with a landowner by mutual agreement if the Secretary determines that such termination would be in the public interest. However, many landowners may not mutually agree to terminate the agreements.

Question. What are the human safety risks, risks to the environment and infrastructure if you halt construction on a half-constructed or half rehabilitated dam or flood mitigation measure?

Answer. Human safety risks due to partial flood retention and more probable dam failure, and environmental damage risks due to erosion and sedimentation, will vary with the particular site situation and the degree on completion. A partially completed dam is clearly a higher risk to the public and the environment than a completed one.

Question. What is the Administration's plan to deal with projects that are partially complete or dams that are half constructed on September 30, 2005?

Answer. Dams that are partially completed when construction activities are terminated can either be completed by others, modified to protect the general public and the partially completed work, or decommissioned and the area stabilized. Many embankment dams are constructed over a period of several years; other dams have construction interrupted by contractor default. NRCS has also constructed many dams in planned phases with separate contracts for each phase. Engineering solutions unique to each particular site will be needed to mitigate long term risks to the Federal investment and the general public. Unaddressed long term risks will likely be mitigated by most State Dam Safety Agencies at the dam owner's expense.

Question. How many current contractual obligations do you have? What is the monetary value associated with these obligations?

Answer. NRCS has about 2,000 contracts and agreements to install conservation measures, including floodwater retarding structures and Long Term Agreements with sponsors and landowners. These contracts and agreements total about $167 million of obligated, yet undisbursed, funds.

Question. What is the Administration's dollar estimate of claims, attorney's fees, and litigation costs for addressing all of the contractual obligations you propose to terminate?

Answer. The termination costs, including claims, attorney's fees, and litigation costs, plus the cost to restore sites to original condition have not been determined. These costs will need to be determined on a case by case basis.

Question. What guidance are you providing to your sponsors (local communities) who are anticipating Federal cost-share dollars and are proceeding with land rights acquisition, engineering, design, and Federal/State permits?

Answer. We have not provided any guidance to project sponsors.

Question. How much funding is needed to complete the on-going watershed rehabilitation projects that have been initiated with prior year appropriations?

Answer. The unfunded Federal commitment for projects authorized and currently underway is $30 million.

Question. How many USDA assisted watershed dams have already reached the end of their design life?

Answer. By the end of fiscal year 2005, 457 dams will have reached the end of their design life.

Question. With the Administration's fiscal year 2006 budget including a significant reduction in funding for watershed rehabilitation, it seems like very few of the risks to loss of life and property associated with these dams will be able to be addressed; is that correct?

Answer. We project that of the currently authorized project work that includes 68 dams, rehabilitation work could likely proceed on 7 dams.

Question. What are the anticipated rehabilitation needs for aging watershed dams in the next 5 years?

Answer. In the next 5 years, 1,808 dams will reach the end of their design life. By fiscal year 2009, $565 million (current dollars) is required to rehabilitate these dams. The owners of these facilities should also seek State and local government, as well as private, sources of funding for their rehabilitation needs.

Question. At the rate of the administrations request for funding for watershed rehabilitation, how long will it take to address: (1) the on-going rehabilitation projects? (2) The existing known rehabilitation needs?

Answer. With funding at $15 million per year, it would take approximately 5 years to address ongoing projects. It would take approximately 37 years to address the existing known rehabilitation needs at this level of funding.

Question. How can the agency meet these critical public safety needs with the Administration's budget proposal?

Answer. At the proposed funding level, watershed rehabilitation needs and requests will be prioritized to address needs with the greatest potential for loss of life.

Question. If funding was available, what is a realistic estimate of the actual rehabilitation work that NRCS and local project sponsors can accomplish in fiscal year 2006? How about the next 5 years?

Answer. The funding levels stipulated in statute are consistent with the watershed rehabilitation needs to protect life and property.

Question. Is there an opportunity for communities to provide new benefits, such as adding municipal water supply, recreation, and wetland and wildlife enhancements when these dams are rehabilitated? Is decommissioning (removal of dams) a viable alternative to consider for rehabilitation of watershed dams?

Answer. Yes, local communities and project sponsors can add additional purposes or beneficiaries to existing dams.

Question. How will appropriated funds be allocated to specific watershed rehabilitation projects?

Answer. The statute directed USDA to assist sponsors with rehabilitation of their aging dams and required establishment of a priority ranking system. The priority ranking process has been invaluable to provide a consistent method for evaluation of dams and allocation of funds.

All viable applications received from project sponsors are ranked. The priority ranking system includes the following major components: Potential for failure of the dam; Consequences of failure of the dam—based on existing conditions and design features of the dam; Input from State Dam Safety Agency; Rapid implementation—to assure unsafe dams are rehabilitated as quickly as possible. Highest priorities are assigned to those dams with the greatest rehabilitation needs with the potential for loss of life or significant environmental damage, should the dam fail.

Question. Does NRCS have the technical capacity needed to assist project sponsors with all of their requests for Federal assistance in watershed rehabilitation?

Answer. While NRCS technical capacity in the area of planning, design, and construction of water resource projects has decreased significantly over the past several years the statute does not require all technical assistance to come from NRCS. NRCS may elect to use private technical sources to provide assistance in planning, design, and construction oversight. Also, project sponsors may elect to complete project planning and design using their own staff or the hiring consultants to complete this work that would then be reviewed and concurred on by NRCS.

Question. In fiscal year 2005, how many requests and how much money was requested for rehabilitation assistance?

Answer. In fiscal year 2005, local communities requested 123 projects in 21 States totaling $43 million.

Question. How many projects were funded in fiscal year 2005? How many projects were not funded?

Answer. The fiscal year 2005 appropriations provided for 87 projects in 21 States. 36 requests for watershed rehabilitation projects were not funded.

Question. How much did each State receive for watershed rehabilitation in fiscal year 2005?

[The information follows:]

FISCAL YEAR 2005 WATERSHED REHABILITATION

State	Total
Alabama	$170,000
Alaska	
Arizona	3,797,000
Arkansas	431,000
California	25,000
Colorado	195,000
Connecticut	
Delaware	
Florida	
Georgia	2,800,000
Hawaii	
Idaho	
Illinois	40,000
Indiana	100,000
Iowa	122,000
Kansas	140,000
Kentucky	430,000
Louisiana	25,000
Maine	30,000
Maryland	
Massachusetts	115,000
Michigan	10,000
Minnesota	40,000
Mississippi	1,360,000
Missouri	300,000
Montana	225,000
Nebraska	1,122,000
Nevada	
New Hampshire	110,000
New Jersey	45,000
New Mexico	662,000
New York	295,000
North Carolina	
North Dakota	611,000
Ohio	170,000
Oklahoma	5,470,000
Oregon	
Pennsylvania	90,000
Rhode Island	
South Carolina	102,000
South Dakota	20,000
Tennessee	14,000
Texas	5,035,000
Utah	159,000
Vermont	
Virginia	610,000
Washington	
West Virginia	190,000
Wisconsin	181,000
Wyoming	105,000
Pacific Basin	
Puerto Rico	30,000
State Totals	25,376,000

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

DUTIES OF AGENCY STAFF

Question. We are receiving reports that the Department is altering the traditional agency assignments of certain field office staff. As we understand it, where the CRP and EQIP programs are concerned, the Farm Service Agency historically has assisted landowners with sign-up and financial matters, while the NRCS has assisted with technical assistance for these programs. Apparently, this is in line with long standing expertise of these respective agencies. Information is now coming forward that managers at the Department level are directing agency staff to handle matters contrary to this historical pattern with possible negative consequences. Please explain to the committee what is taking place in this regard.

Answer. In a jointly signed memorandum dated July 19, 2004, Farm Service Agency (FSA) Administrator James Little and Natural Resources Conservation Service (NRCS) Chief Bruce Knight announced the migration of Environmental Quality Incentives Program (EQIP) administrative responsibilities from FSA to NRCS. There are many reasons for this change, but the overall result will be a streamlining of services to participants and more efficient use of Government resources. Duplication of efforts, which were necessary when both agencies were involved in EQIP, has been eliminated. Effective October 1, 2004, NRCS is the point-of-contact for all administrative and technical services provided through EQIP.

Although NRCS is recommending streamlining CRP to reduce the administrative activities that are now required of NRCS, NRCS and FSA have issued a "workload agreement letter" which basically states that NRCS will provide CRP technical assistance for both the General CRP Sign Up and the Continuous CRP.

In addition, TSPs have traditionally been hired either by the landowner or by NRCS. TSPs have been available to conduct technical assistance for CRP since fiscal year 2003.

NRCS at the State level can determine that they will contract out the CRP technical assistance for conservation planning or conservation application. NRCS may also decide that they will contract out different phases of planning or application (conducting status reviews, practice design or certification, etc.)

Question. What exact directives are being issued, and with what degree of formality or permanence?

Answer. Jointly signed national directives from the Administrator and Chief were issued to all FSA and NRCS employees on July 19, and December 21, 2004. These directives supported an orderly transition to new EQIP administrative procedures. A jointly signed letter was also mailed to all active EQIP participants during August of 2004. The permanent transfer of all contract files and related administrative records occurred during October and financial reconciliation tasks were finished during December. Since assuming administrative responsibilities, NRCS has made over 32,000 EQIP payments totaling about $175 million.

For fiscal year 2005, NRCS and FSA are operating under a "Workload Agreement" which delineates the responsibility of CCC, FSA, and NRCS with respect to CRP technical assistance, based on the 1986 Memorandum of Understanding (MOU) establishing a cooperative working relationship among the agencies involved in carrying out the CRP.

Question. What cost reimbursement arrangements are involved?

Answer. Since passage of the 2002 Farm Bill, NRCS has reimbursed FSA annually for administrative services related to handling EQIP applications and contracts. During fiscal year 2004, over $13 million was transferred to FSA for this purpose. In 2005, NRCS has retained these funds to enhance its administrative capability to support EQIP. Much of this investment has been in software development, training, and some additional administrative specialists to process payment applications. No EQIP reimbursable agreements are planned with FSA this year.

Utilizing the CRP agreement, NRCS will provide technical assistance both directly or through NRCS approved Technical Service Providers and assure all technical work done will meet NRCS technical requirements. NRCS will also submit to FSA billings for direct charge from NRCS time and accounting system information for full reimbursement of actual cost of technical assistance provided by NRCS. These costs are based on NRCS Cost of Programs Model.

Question. What complaints or inefficiencies are you aware of, and what remedial steps will you take?

Answer. The transfer of more than 160,000 EQIP contracts has neither been easy nor without some controversy. The migration and reconciliation process took 5 months to complete. About 20 percent of the participant payments were delayed beyond 30 days as NRCS implemented new business processes for EQIP. We have given priority to software support and training activities that enabled NRCS to eliminate this problem. By the end of fiscal year 2005, NRCS expects to implement additional streamlining activities to achieve more administrative and technical efficiency.

In fiscal year 2007, 16.1 million acres of CRP land will expire and will be available for planting to an agricultural commodity. This would increase the soil erosion rate on cropland, and it would also place a strain on the delivery of CRP technical assistance by NRCS at a time when USDA's workforce is declining. FSA has requested comments on how USDA should handle the expiration of the 16.1 million acres of CRP in fiscal year 2007 and beyond.

NRCS is recommending streamlining CRP to reduce the administrative activities that are now required of NRCS, e.g., land ownership changes, obtaining landowner signatures on conservation plans, plan revision for non-technical reasons, re-planning and certifying food plots every year for the life of the contract, when the food plot seeding and/or planting are the same year after year.

RESOURCE CONSERVATION AND DEVELOPMENT

Question. The President's budget includes substantial cuts in the RC&D program and these cuts are arbitrarily based on the period of time the associated districts have been authorized. Have you found that the period of time a district has been authorized has any relation to the effectiveness and success of the district?

Answer. We have found a variety of capacity situations in regards to the length of time a RC&D Area has been designated. The President's budget is not proposing to eliminate any RC&D councils. After more than 20 years of receiving technical assistance in the form of a full-time coordinator and administrative support, the proposal reflects the belief that these councils should have the capacity to supplant Federal funds. The National Association of RC&D Councils recently provided information showing that 24 percent of the councils have 2–5 employees and 4 percent have 6 or more employees. Asking high-performing councils to address these needs themselves should be feasible, and expecting low-performing councils to improve their performance or risk being terminated from assistance should also be reasonable.

Question. Should funding decisions be based on the most effective use of Federal funds or arbitrary decisions?

Answer. We concur that funding decisions should be based on the most effective use of Federal funds and believe that the President's budget proposal reflects that decision.

Question. If effective districts will lose Federal funds under your proposal, what assurances do you have that State, local or other funds will replace them?

Answer. We are confident that high-performing councils will demonstrate local leadership abilities to leverage funds from other sources to supplant the incubator funds they have received from NRCS in the past. This confidence is based on information they have provided in the past regarding the high level of leveraged funds they are able to achieve, an average of 5 to 1 dollar of RC&D appropriated funds for the past 3 years, and the variety of funding sources they utilize in carrying out their area plans each year.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

CONSERVATION SECURITY PROGRAM

Question. Participation in the first CSP sign-up was much lower than NRCS expected, but the agency spent $40 million in 18 watersheds. This year expenditures are capped at $202 million, some of which will cover last year's contracts. With the sign-up in 220 watersheds this year, there will be much less money per watershed for new contracts this year.

The President's budget proposes capping CSP at $274 million next year. If CSP is capped at $274 million, how much money will be available for new contracts in fiscal year 2006?

Answer. With CSP capped at $274 million for 2006, NRCS expects to have $110 million available for new contracts. The President's budget provides for $273.9 million in available funding for CSP in 2006. Of that amount, $123.2 is needed to fund prior year financial assistance obligations. In addition, $41.4 million is used for technical assistance by NRCS.

Question. I am concerned that the Conservation Security Program is being eroded by restrictive rules and limited funds. If we follow the President's budget recommendation, next year there will be less money available for new contracts. If we continue decreasing the money available for new contracts, then producers will not have the opportunity to enroll in CSP once every 8 years, it will be more like once in a lifetime.

We designed a program that was intended to be attractive to producers and that would generate significant and lasting conservation benefits from widespread participation.

I would like your commitment that USDA will help achieve the original program objectives. Will you give me that assurance?

Answer. USDA is firmly committed to a CSP program that rewards producers for their stewardship, promotes improved environmental performance, and responsibly stays within the available funding limitations.

NRCS is working hard to ensure development of the program in a manner that is both farmer-friendly and responsive to the conservation needs of the Nation. The watershed-based implementation is being used to operate CSP and stay within the available budget. In 2004, CSP was offered to producers in 18 selected watersheds and resulted in about 2,200 contracts with the $41 million of available funding. Currently, sign-up for fiscal year 2005 CSP enrollment is well underway in 220 selected watersheds that reach all 50 States and the Caribbean. There are 2,119 watersheds nationwide at the eight-digit hydrologic unit code (HUC) level.

USDA is committed to the vision of CSP as a nationwide conservation program. Other watersheds will be selected each year until landowners in every watershed have had a chance to participate.

QUESTIONS SUBMITTED TO GILBERT G. GONZALEZ

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

RURAL RENTAL ASSISTANCE

Question. The budget requests $650 million for rural rental assistance.

How will those funds be allocated?

Answer. [The information follows:]

FISCAL YEAR 2006 RENTAL ASSISTANCE

Renewals	$639,126,000
Debt Forgiveness	5,900,000
Farm Labor Housing New Construction	5,000,000

Question. Will rental assistance be available for new construction and substantial rehabilitation for farm labor housing projects?

Answer. Five million dollars will be available for Farm Labor Housing new construction.

Question. Will that amount be adequate for all farm labor units expecting to receive financing?

Answer. The amount is consistent with what has been provided in recent years to support equivalent Farm Labor Housing New Construction funding levels. Farm Labor Housing rental assistance costs approximately $10,500 per unit; so this level will fund just under 500 units which should be sufficient to support the requested funding levels for the program.

GUARANTEED MULTIFAMILY HOUSING

Question. The budget includes an increase for Section 538 guaranteed loans for rural rental housing.

What is the average income for families living in Section 538 developments and how does that compare to Section 515 developments?

Answer. The average income for families living in section 538 developments varies from project to project; however, section 538 projects have approximately 55 percent of the units rented to families with very low income and approximately 40 percent are rented to low-income families. The average income for families living in section 515 developments vary by project as well; however, approximately 95 percent of section 515 units are rented to very low-income families and approximately 4 percent are rented to low-income families.

Question. What is the average size of the communities in which Section 538 developments are located?

Answer. The average size of the communities in which section 538 developments are located is approximately 8,790 people. The program can assist communities up to 20,000 in population.

Question. What is the record of Section 538 developments in serving low income households and more remote rural communities?

Answer. More than 90 percent of the units are rented to either very low- or low-income families. One of the driving forces before renting to very low- or low-income families is the tax credit requirements on these projects. Eighty percent of section 538 properties are financed with tax credit equities, which means that between 40 to 60 percent of the units must serve families making less than 60 percent of median income.

Section 538 is solely a guarantee program.

Question. What subsidy sources are available to make Section 538 units affordable for low income families?

Answer. The law governing the program requires that at least 20 percent of the loans made each year receive an interest credit subsidy, which is a buy down from the lender's note rate to the Applicable Federal Rate. So that this subsidy may reach the neediest of projects, scoring and selection criteria are published each year in a Notice of Funds Availability (NOFA), and the project must score a minimum number of points, set in the NOFA, to receive interest credit. Because the law sets a threshold for how many loans must receive interest credit, but does set a limit on how many loans may receive it, the program's subsidy rate has been calculated on the program's historic average of interest credit subsidy granted. Each year, since program inception, approximately 50 percent of the loans have received interest credit.

Rental Assistance is not available for section 538 projects; however, other subsidies are permitted in these projects. HUD vouchers are permitted, and State funded rental assistance is also permitted. More than 80 percent of the section 538 projects have tax credit equities, which adds an additional source of funding for the construction. The tax credit agencies require large percentages of units to be rented to families making less than 60 percent of area median income.

Question. Does RHS have any information on the availability of such sources and the likelihood that Section 538 projects will secure such subsidies?

Answer. Currently, about 50 percent of section 538 properties received an interest rate buy down, called interest credit. In order to "stretch" its interest credit and provide assistance to more projects, while keeping the subsidy rate under control, the agency currently limits the amount that any one property can receive to $1.5 million.

Additionally, 5–10 percent of the section 538 tenants have HUD section 8 vouchers. As mentioned above, more than 80 percent of the section 538 projects have applied for tax credits and received them. These tax credits generate funds used in the construction of these projects. As a condition of using tax credits, many of the units in these projects are rented to very low-income families at affordable rents without rent subsidies.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

RURAL DEVELOPMENT PROGRAMS

Question. The President's budget request eliminates four rural economic development programs at USDA which are targeted to low-income small rural communities and replaces these and 14 others into a smaller substitute grant program the legislation for which has not even been drafted. The Administration justifies this change by describing many of these programs as duplicative, ineffective, and unaccountable with results not demonstrated. Nevertheless, recent press releases cite the successes and benefits the Bush administration has brought to rural America through these very same programs the Administration seeks to eliminate.

The entire proposal appears to have been developed and driven by OMB with little or no input from the various affected Federal agencies.

What studies were conducted by either USDA or the Department of Commerce to determine the impact this transfer will have on America's rural communities? Isn't this just a shell game to reduce and/or eliminate many of these programs and have their traditional constituencies fighting over less funding? If this new smaller substitute grant program was to be created in the Department of Commerce, does the Department know for a fact what eligible activities that are currently authorized under the four rural development programs would be eligible under this new program? What transfer of staff from USDA to the Department of Commerce is contemplated?

Answer. The President's proposed Strengthening America's Communities Initiative is designed to streamline a number of Federal programs that provide assistance to communities and will include eligibility criteria that will ensure funds are directed to those communities most in need of development assistance. While Rural Development has not conducted any studies regarding this initiative, we feel confident that rural communities will fare well when these criteria are used, as the proposal includes broad purposes that will allow rural communities to obtain funds for purposes currently being met through the Rural Development programs included in the President's proposal. USDA Rural Development has offered our expertise, assistance, and experience in program delivery in rural areas through our 800 local offices. We will continue to work with the Department of Commerce on the technical details of the delivery of this program, particularly as it affects rural areas. The Administration will craft the legislation as a part of a collaborative effort with Congress and stakeholder groups. A Secretarial Advisory Committee has been created at the Department of Commerce to help address some of the most complex issues, including eligibility of rural communities. The legislation that is ultimately submitted will be the result of an open dialogue with stakeholders and members of Congress. The impact of this initiative on Rural Development staff will be minimal, and no staff will be transferred to the Department of Commerce.

RD GENERAL REDUCTIONS IN DIRECT LOANS AND GRANTS

Question. It seems that Rural America, as presented in this case and generally across the entire budget request for the Department of Agriculture, is the loser once again. These are well established programs at USDA, serving the poorest rural communities and I have no intention of allowing this proposal to move forward until the Department can provide detailed answers prior to the Committee's Mark-up in the very near future. In fact, I request receipt of these answers this month to adequately prepare to draft a workable bill and not leave out our poor communities.

This year, as before, the President proposes to cut direct loans and grants (which target low-income communities), and increase guaranteed loan programs (that serve more moderate-income communities). This proposal effectively cuts vital services to America's poorest citizens by reducing direct loans and grants for multifamily housing, water and waste, broadband grants, and other rural development programs. USDA justifies this shift throughout its budget by emphasizing a lower interest rate environment, and the lower subsidy and program costs that would result. On its face, this sounds good to keep costs down. But, America's most needy rural communities are too poor and neglected to participate in guaranteed programs. Furthermore, the public policy underlying direct loans and grants is precisely to support the Nation's most vulnerable rural communities.

What impact studies did the Department undertake prior to proposing this shift? If none, why not? If studied, what results? When can the Committee receive the results? What steps is the Department prepared to take to protect the needy communities and individuals who will not be able to participate in or benefit from guaranteed programs, and will no longer have direct loans and grants available?

Answer. The Administration remains steadfast in its commitment to rural America, including the neediest communities, and Rural Development's $12.8 billion program budget request reflects that commitment. This program level will be achieved with $1.775 billion in budget authority. Budget authority supporting grants plus direct loans accounts for 94.5 percent of the program total. Budget authority for guaranteed loans accounts for only 5.5 percent of the program request. It is also noted that guaranteed loans do, in fact, benefit the very-low income rural population directly by providing housing and jobs, and indirectly by providing infrastructure and essential community facilities. Furthermore, in this continuing low interest rate environment, individuals and communities are better able to bear some debt, which allows scarce resources to be stretched further and allows more communities and very-low income residents to benefit.

RD TAX EXEMPT FINANCING FOR LOAN GUARANTEE PROGRAMS

Question. USDA provides loan guarantees for essential community projects under the Rural Development Loan Guarantee program. Struggling rural communities are critically dependent on these loan guarantees to meet environmental standards for water and waste water in a cost effective manner. When it comes to financing public investments for these issues, rural communities are forced by existing regulation to choose between USDA loan guarantees or tax exempt financing. Financing costs would likely decrease if communities could combine tax exempt financing with Federal guarantees.

Does USDA utilize the full program level available for loan guarantees of this nature?

Answer. No, we are not able to utilize the full guaranteed water and environment program funds available. In the last 3 fiscal years, $75 million has been authorized in each year. However, only 6 loans for $2.3 million were made in fiscal year 2002; 4 loans for $3.6 million in fiscal year 2003; and 2 loans for $41.2 million in fiscal year 2004. That is an average of four loans per year for $16 million. In the past 3 fiscal years, only 21 percent of the guaranteed authority was used. The vast majority of applicants for loans for water and waste disposal projects are from municipal or tax exempt entities. Even though this money is available for loan guarantees, RD is not able to use it to address the current backlog program in the water and waste disposal program.

Question. Explain how a provision in the tax code allowing rural communities to combine tax exempt financing with loan guarantees would increase rural community utilization of these guarantees?

Answer. Changing the tax code to allow tax exempt financing with an agency guarantee would allow public bodies to borrow funds from commercial lenders at an interest rate comparable with the agency's direct market rate loans. In fiscal year 2004, $291 million in loans were made to 278 public body borrowers at the agency's market rate interest rate. That represents over 30 percent of the agency's fiscal year 2004 lending total. Over one third, 100 public body borrowers in 2004, did not receive grant funds and borrowed $134 million in market rate loans. Most of these borrowers could obtain financing from private lenders at a cost comparable to direct loans if they could receive both a tax exemption and a guarantee on the financing.

RD BUSINESS PROGRAMS

Question. The Business and Industry Guaranteed program has received a substantial increase in the Department's budget request for 2006.

Are you still pursuing other fees through Congress to reduce the subsidy costs for this program, and if so, what is the Administration's formal position?

Answer. The Administration is currently assessing its options including consideration for assessing an annual fee for reducing the subsidy costs of the program. It is the Administration's goal to find ways of reducing the cost of the program in order to assure that adequate funding is provided to accommodate the demand of this program in fiscal year 2006 and beyond.

RHS NEW CONSTRUCTION

Question. The President's 2006 budget estimates indicate no rental assistance for new construction for multi-family rental and farm labor housing programs. In 2004, GAO reviewed this program, which is the largest line item account in the Rural Development Mission area. Upon GAO's finding of gross mismanagement of this program, the committee changed the term of the contracts to capture over inflated contracts.

Is it true that you have now changed this position to allow rental assistance for new construction in the farm labor housing program?

Answer. The fiscal year 2006 budget has $5 million in rental assistance for Farm Labor Housing new construction.

[The information follows:]

FISCAL YEAR 2006 RENTAL ASSISTANCE

Renewals	$639,126,000
Debt Forgiveness	5,900,000
Farm Labor Housing New Construction	5,000,000

Question. What led to this change?

Answer. Fiscal year 2006 budget had all 521 assistance listed on a single line item as if for renewal only. The intention to provide $5 million in assistance for 514/516 was erroneously omitted in the accompanying notes. It was the Administration's intent that support for farm labor housing new construction be included and was part of the $650 million requested.

Question. Does this indicate that you over-compensated for renewals?

Answer. No, the chart did not reflect the intention of the Administration, and the note in the budget should have said "including $5 million of funding for RA for Farm Labor Housing" instead of "does not include". The RA on the chart erroneously appeared as if it was only for renewal use. It was overlooked in the review process, and corrected later. We apologize for this error and appreciate the opportunity to clarify.

Question. Why is the Administration allowing new construction for the 514/516 program and not the 515 program when they are very similar in program activities and structure?

Answer. The Department has studied the 515 program and now has definitive knowledge of the need to focus on revitalization of existing portfolio. The 514/516 program, though similar, has not benefited from the same level of study yet. It would be premature to assume the same approach is needed in both programs. Further review may indicate what specific directional changes should be made in this program.

Question. Considering that the very low-income elderly compose almost half of the population making use of the 515 program, is it not of vital interest to meet those needs?

Answer. Currently approximately 57 percent of the units in the 515 programs are rented to elderly tenants. The Administration believes that protection of these tenants through availability of new tools such as vouchers, and emphasis on revitalizing the portfolio is the best way to serve the rural elderly population with the limited resources available.

RHS EQUAL ACCESS TO HOUSING

Question. "Equal access to housing is especially important in rural America. RHS is continuing to show the way in making decent affordable housing available to low- and moderate-income rural people regardless of color, disability, gender or belief."

The above comments by former Rural Housing Service (RHS) Administrator Art Garcia were made on April 26, 2002. I am not sure, however, how faithful RHS remains to these ideas today.

In 2001, Rural Development issued a Request for Proposal (RFP) (solicitation #RP–31ME–1–1001) to conduct fair housing paired testing. The RFP stated that the testing was to be: ". . . on a nationwide basis in Rural Development's Rural Rental Housing Section 515 and Section 538 complexes that were financed by USDA."

Apparently, the testing was to determine whether discrimination occurs in rental housing supported by RHS. Although the RFP was issued nearly 4 years ago, we have heard no mention of the results.

Where are the testing results?

Answer. The study has been reviewed with RHS officials, and training for Headquarters staff is scheduled by the Fair Housing Alliance for May 24th and 25th regarding the findings. The recent policy meeting held in Portland, Oregon, introduced the existence of the study to the field and a session on accessibility and fair housing was offered as a mandatory part of the training track for Multi-Family Housing staff and architects. Additionally, discussions have been held with Council for Affordable and Rural Housing and National Affordable Housing Management Association groups about training of resident managers to be more aware of their responsibilities, which was the primary focus of the study. Both groups are currently offering such training to industry managers.

Question. Why has there been no discussion of the findings?

Answer. The findings are being reviewed and policy formulated to address the findings. The official training by the Fair Housing Alliance is scheduled for May 24th and 25th.

Question. Did the tests find any violations? How many? In what areas of the country were the tests conducted?

Answer. The tests found violations, but frequency of violations were found at a rate of one third that normally found in similar HUD reviews. The study conducted tests in a geographically dispersed manner, not focusing on any one part of the United States.

Question. What corrective actions has the Department taken to remedy any discriminatory practices?

Answer. While individual property by property results are not provided in the study, the contractor has agreed to deliver to RHS a list of any specific properties where violations were serious enough to need immediate attention. These cases will be individually evaluated and corrective action initiated by Rural Development State Offices.

RHS RENTAL ASSISTANCE

Question. In the President's budget request for Section 521 Rental Assistance:

Does the total rental assistance number include transferred rental assistance for projects that prepay?

Answer. The budget request does not include transferred rental assistance for projects that prepay because we do not know at this time which projects will prepay or what the balance of those rental assistance contracts will be when the borrower actually prepays his mortgage. The President's budget request of $650 million is for renewal of contracts expected to exhaust funds in fiscal year 2006 renewals ($639 million), rental assistance for Farm Labor Housing new construction ($5 million) and preservation (debt forgiveness) ($5.9 million).

Question. If so, what is the number?

Answer. The budget request does not include transferred rental assistance.

Question. How many projects (and the associated rental assistance for projects that prepay) do you anticipate will prepay in fiscal year 2006?

Answer. Unless litigation or legislation lifts restrictions currently in place, we anticipate that approximately 100 properties will prepay, based upon past trends. We cannot estimate the balance of these rental assistance contracts.

RHS SINGLE FAMILY RURAL HOUSING

Question. What is the status of the Rural Home Loan Partnership in the Section 502 direct loan program?

Answer. The agency continues to participate in the Rural Home Loan Partnership (RHLP) for fiscal year 2005. The partnership provides significant benefits for the agency and its partners as well as our customers by bringing our mutual resources together to assist low- and very low-income rural residents in becoming successful homeowners.

Question. Do you plan to continue this partnership effort?

Answer. Yes. Our customers benefit from the homeowner education and affordable housing products that many of our RHLP partners provide. We look forward to working with our partners to make this initiative even more mutually beneficial.

Question. What is the cost to the government of this partnership effort compared with what the cost would be if the Department provided the entire loan through the 502 direct loan program?

Answer. Rural Development has not performed a specific cost-benefit analysis. The RHLP is a unique partnership involving a local nonprofit, local lender and Rural Development all working together to build a better rural community. The nonprofit organization provides credit counseling, homeownership education, and other affordable housing products. The local lender is able to participate in helping lower income families within their community to achieve homeownership. Rural Development benefits by helping more families to become successful homeowners.

RHS MULTI-FAMILY HOUSING

Question. In the Administration's new voucher program, what are the annual cost, number and term for these vouchers?

Answer. While the legislative language currently being developed through the Department will determine the final form of these vouchers, we currently anticipate through the budgeting process that the rental assistance assisted tenants will be provided a 5-year term and cost approximately $13,000–$14,000 per voucher. Our calculations assumed that Non RA assisted tenants would be covered for a shorter term, so those vouchers would be less expensive. The 2006 Budget estimate is based upon issuing 15,000–17,000 vouchers, which would cover about one-third of the total expected in the prepayment estimation of the Comprehensive Property Assessment (CPA). The CPA estimated the primary need for vouchers would be in years 2006–2009.

Question. Who will administer this program, for example HUD Public Housing Authorities?

Answer. We could use a delivery strategy similar to that used by HUD, which includes public housing authorities as part of the process.

Question. If an entity outside of USDA administers this program, what type of administrative agreement are you exploring and what is the cost?

Answer. A delivery network similar to HUD could be operated under an interagency agreement.

Question. Provide a detailed breakdown of the $214 million voucher funding request. For example, will consulting costs be included and for what amount?

Answer. Of the $214 million requested during fiscal year 2006 for a Rural Development voucher program, $204 million would go for the cost of vouchers and $10 million would go for administrative expenses, including contracts for industry experts.

Question. Will these vouchers be project-based or tied to an individual?

Answer. The vouchers are to be tenant based.

Question. Will they be portable and allowed to transfer outside of the community? Can they be transferred to any community in the United States? If so, how will you control the costs?

Answer. Details of the voucher program are still being developed. They will include portability since it is understood that tenants prefer to have choices.

Question. Can they be transferred to major urban communities? If so, how will you avoid confusion or conflicts with the HUD voucher program?

Answer. While they could be transferred to another geographical area, the cost is determined by the market conditions in the area where prepayment occurred.

Therefore, moving to a very high cost of living area from somewhere less expensive might not provide enough financial assistance to fill the gap for the tenant between their income and the urban rent.

Question. For several years the Administration has indicated that they would move back to a low-income production program after a comprehensive review was completed. When will this take place?

Answer. For fiscal year 2006, the production program will continue, but will largely take the form of the section 538 program. The use of tax credit equity, other subsidy, and interest credit have allowed this program to serve low- and very low-income tenants. While not the same as the section 515 program, it serves similar sized communities, and a large number of low- and very low-income residents.

Question. How will the 538 program be an effective tool to rehabilitate the 515 portfolio? Please explain the process for how this will work? Would these transactions require the 9 percent tax credits in order to succeed?

Answer. We are exploring how the section 538 program may be used to rehabilitate existing section 515 projects. For example; the section 538 guarantee can be used for acquisition of the section 515 project if coupled with extensive rehabilitation of $6,500 or more per unit. The legislation and regulations permit the use of section 538 guarantees on projects when they are acquired and repaired. The current regulations require that the repairs be substantial, at least $6,500 per unit to qualify for use with section 515 project acquisition. The economics of each project would be different; however, the 9 percent tax credits would not always be necessary for these projects to succeed. The longer 40-year amortization of the section 538 loan, plus the program's interest credit buy down to the Applicable Federal Rate (AFR), should help the project to succeed. Some regulation and handbook changes will be needed to make the program more effective in partnership with section 515 financing already in place on properties in need of rehabilitation, and for stay-in owners. We intend to work on these changes in 2006.

Question. How will you overcome potential barriers to the success of your proposal, such as state ceilings on the 9 percent tax credits and program competition?

Answer. In 2004 approximately 80 percent (35 out of 44) of the projects awarded funds in section 538 had tax credits in the deals. Similar leveraging occurred with section 515, but with mostly lower valued 4 percent credits. While tax credits are added financial benefits to project owners, these tax credits are not indicative of the success or failure of a project. The projects have competed very well for 9 percent credits.

The 538 program is currently prohibited from providing assistance for projects with section 521 rental assistance and/or HUD section 8.

Question. Does this mean your proposal to use the 538 program to rehabilitate the 515 program will be limited only to projects that have no rental subsidy, and therefore, not reaching the very-low income projects?

Answer. While the section 538 projects are not eligible for new rental assistance, many projects do have HUD section 8 vouchers. As we explore how a section 538 loan can be used with a section 515 project rehabilitation, the section 515 project may have existing rental assistance. Therefore it is possible that some rehabilitated section 515 projects with section 538 loans may have rental assistance. We will need to explore possible regulation or handbook changes to be able to successfully couple the two programs in a revitalization scenario, but believe this is clearly the right direction.

Question. Will you use the 538 program to essentially refinance the 515 projects?

Answer. The section 538 program is a new construction program and a mechanism to rehabilitate section 515 projects. In addition, to section 515 repair and rehabilitation authority in 2005 of $53 million, and $8.8 million in section 533 (Housing Preservation Grants), applicants who desire to purchase section 515 projects and repair them may apply for section 538 funds. Because of rental assistance and other considerations, refinancing is not always in the best interest of the borrower or tenants. We do not expect to see wholesale use of section 538 for refinancing under current circumstances.

Question. If so, how will this affect the low and very low-income residents and the project rent structure?

Answer. Full refinancing is not anticipated as a likely scenario.

Question. What can you realistically accomplish with the 538 program with the 9 percent tax credit for the rehabilitation of the 515 program in fiscal year 2006?

Answer. The Multifamily Revitalization Initiative anticipates that revitalization will occur over an 8–10 year schedule, with the majority of major renovations occurring after 2008. Rehabilitation funding with the section 538 program will be developed as an option in the meantime.

Question. What percentage of 538 loans approved to date have received a 9 percent tax credit?

Answer. Approximately 80 percent of the section 538 projects have received 9 percent tax credits.

Question. Do you believe the 515 and 538 programs serve the same income groups?

Answer. While the section 515 projects have a higher percentage of very low-income tenants, they also use rental assistance. The section 538 projects have very low-income tenants also, just not to the same percentage of tenants as the section 515 projects. A primary reason for this is that the section 538 projects are prohibited from having rental assistance; therefore, the section 538 projects in order to survive must attract low-income tenants as well. Additionally, because many section 538 projects have tax credits, those tax credits require that a high percent of the units be rented to very low-income tenants, thus requiring the owners to address the housing needs of the very low income families.

Question. Please provide a side-by-side comparison of some hypothetical 538 and 515 projects residing in the same communities serving the same very-low-income residents. In doing so, provide the rent structure, required reserve accounts, management and operational expenses, and all Federal, State and other subsidies and/or grant money including tax credits.

Answer. These are two properties that were developed at the same time on a 4 acre tract in Arkansas. Driveways and property entrances are shared. Both were constructed in 2003. The rent is higher in the section 515 project prior to application of rental assistance, and this is primarily a factor of 9 percent tax credits providing equity in the section 538 product.

[The information follows:]

Section 538 property (Lowell); 40-unit complex garden; style units 24–1BR, 16–2BR.

Bank Loan 7.69 percent, 40 year; section 538 quarantee with Int.; Credit Rate 5.19 percent; 9 percent LIHTC funds 40 year; and rate 5.19 percent.

Section 515 property (Robinson); 24-unit 2 story with elevator; 24–1BR with community room & 2 project rooms.

RD loan 1 percent 50 year amort/30yr bal.; HOME Loan, 1 percent, 50 year amort/20 year bal.; Loan from applicant 1 percent 50 year amort LIHTc (4 Percent).

Rent Structure $331–1BR, $437–2BR—$440/unit 1–BR (All with R/A) $218/unit Average R/A.

Debt Service	$54,460 annually	$35,857 annually
Reserve Require	8,000	16,346 annually
Operating Exp	9/unit/month	16/unit/month
Utilities	19/unit/month	36/unit/month
Admin	44/unit/month	59/unit/month
Taxes & Ins	31/unit/month [1]	11/unit/month [1]
Total Exp	103/unit/month	121/unit/month
Construction Costs	2,752,028	1,908,000
Cost per unit	68,800	79,500

[1] Taxes based on land only.

RCBS RURAL COOPERATIVE DEVELOPMENT GRANTS

Question. The Rural Cooperative Development Grants program has proven to be very effective in funding co-op development centers that provide critical technical assistance to co-ops that are revitalizing rural communities across the Nation.

Given the fact that this program has leveraged millions of dollars for rural cooperative development, created hundreds of new jobs and new businesses from health care to meat processing plans, has been an effective use of Federal money, and is providing grants to far fewer centers than are seeking funding, why does the Administration propose a 17 percent program cut from $6 million to $5 million? Is it not correct that the Department is providing grants to far fewer centers than the number of centers that seek funding? What steps can USDA take to ensure the unique structural and economic advantages of member-owned and controlled cooperatives will continue to be supported by USDA and its programs? The Administration has reviewed the programs and services provided by Cooperative Services at the Rural Business Cooperative Services agency. What are the results of the review? Please provide any documentation for these results.

Answer. The $5 million proposal is consistent with the Administration's 2005 budget request. While we agree that the program has been successful in developing new business enterprises and creating jobs in rural America, the success of the program is intricately tied to the success of the individual centers themselves. Since this is a competitive grant program, a truly successful center leverages Rural Development funding with funding from a variety of other sources and must be able to sustain itself during years when it does not successfully compete in this program. Several of the centers funded in the past were not able to remain viable when funding for even a single year was lost. Therefore, we believe that the $5 million appropriation requested provides sufficient leveraging and encourages centers to seek alternative funding sources that will only serve to enhance their continued sustainability.

In 2003, the Rural Community Development Grants program received 44 applications requesting $12.7 million. Twenty-one applications were funded for a total of $6.3 million. In 2004, 54 applications requested $13.7 million. Twenty-four applications were funded for a total of $6.5 million.

Rural Development offers many loan and grant programs for which cooperatives are eligible. Examples include the Business and Industry Guaranteed Loan program, the rural Electric and Telecommunications programs, the Broadband Loan program, the Community Connect Broadband program, the Distance Learning and Telemedicine program, and the Value-Added Producer Grant program. Cooperatives are also eligible to receive technical assistance from recipients of Rural Development programs such as the Rural Cooperative Development Program and the Rural Business Enterprise Grant Program. Rural Development staff is also available in the national office and in state offices to provide technical assistance such as conducting feasibility studies, developing business plans, and providing education to groups wishing to form cooperatives as well as existing cooperatives. Finally, the Cooperative Services program area of Rural Development conducts research into cooperative issues and publishes its findings, which are available to the public free of charge.

The Administration contracted for an outside program review of Cooperative Services. The review was to identify improvements or changes in the Cooperative Services programs to better assist today's rural cooperatives, opportunities for leveraging the present CS programs and capacity to support a broader range of cooperative strategies and approaches to building economic vitality in rural areas, and new ways of generating capital for cooperative organizations. Rural Development just received the independent contractor's report and the recommendations and conclusions are under initial review and analysis.

RUS GUARANTEED UNDEWRITING

Question. The Farm Security and Rural Investment Act of 2002 included a new program—Guarantees for Bonds and Notes Issued for Rural Electrification or Telephone Purposes—to provide private sector funding for the Department's Rural Economic Development Loan and Grant (REDLG) program.

The REDLG program provides zero-interest loans and grants for projects such as business expansion and start-up, community facilities, schools and hospitals, emergency vehicles and essential community infrastructure projects in some of the most rural communities in America. According to USDA statistics, in Wisconsin alone, REDLG has invested over $13 million in 60 projects while leveraging an additional $63 million in private capital and creating nearly 2,000 jobs.

At the direction of this Committee, the Department issued a final regulation for this REDLG enhancement in October of 2004—nearly 2 and a half years after the program was signed into law by the President. While this is a step in the right direction, it did not happen in time for USDA to utilize the $1 billion program level that this Committee provided in the fiscal year 2004 bill. This was the second year in a row that USDA failed to utilize the program authority provided by Congress.

Apparently, USDA still has not provided a single guarantee to date under this new program. Due to this lack of implementation, no private funding has flowed into REDLG activities. This represents a substantial loss of investment in rural communities over the past 2 years.

Funds for rural development activities are becoming increasingly scarce.

In view of current budget constraints, why has USDA not moved in a more expeditious manner to implement a program that actually provides private funding for Federal rural development efforts—at no cost to the taxpayers?

Answer. There is approximately $100 million in the Rural Economic Development Loan and Grant (REDLG) program account presently to fund these economic and community projects. This section of the Farm Bill of 2002 is a very complex financial transaction and it has taken longer than anticipated to implement. The main reason has been due to our desire to protect the interest of the taxpayers while simultaneously ensuring that the maximum amount of funds will be available for the REDLG program. The Rural Utilities Service, the Federal Financing Bank and a potential borrower have been negotiating the details of a guarantee under this program. Last year only $4 million was used from the REDLG account.

Question. It is very important to this Committee that this program not only be implemented, but that implementation occurs in an expeditious manner to ensure that the fiscal year 2005 program levels are not lost in the same manner as occurred with the fiscal year 2004 and fiscal year 2003 appropriations.

Is it the intention of this Administration to follow the law as set forth in the 2002 Farm Bill?

Answer. Yes, it is the intention of this Administration to follow the law as set forth in the 2002 Farm Bill.

Question. Does USDA expect to utilize the funds that were appropriated by the Committee in the fiscal year 2005 bill?

Answer. USDA expects to utilize the funds that were appropriated in fiscal year 2005.

Question. When exactly can we expect this program to be fully implemented?

Answer. The details have been agreed to and implementation is expected to begin in June 2005.

RURAL UTILITIES SERVICE BROADBAND LOANS

Question. Rural Development and the Rural Utility Service suggest that the broadband loan program is best utilized for "residential service." Congress, nevertheless, views this program not only as a means to provide residential service, but as a tool for economic development, stating in Senate Report 107–117, "The availability of this [broadband] service is crucial for both economic development and to provide a service that a growing number of Americans are starting to view as essential."

Are you approving broadband loans outside residential services to include economic development activity?

Answer. When a broadband loan is approved it covers the entire proposed service territory including all residents and businesses in that service territory. We strongly encourage that the broadband service be made available to everyone in the area recognizing that any economic development in the proposed service territory can actually increase the feasibility of the project and create new customers for the business plan. We see broadband as a tremendous economic growth tool for rural America that can create new jobs in today's economy.

Broadband loans are limited by the following requirement: "RUS will not make a broadband loan under this part to provide broadband service in an area receiving local exchange telephone service from an RUS telecommunications borrower to any other entity other than the incumbent telecommunications borrower. . . ."

Question. While I realize your concern about creating competition between potential RUS loan recipients serving one area, can you see a situation where you have a current broadband borrower that does not want to expand and provide service for business purposes in their current service area while another entity wants to provide this service using a separate customer base, a separate business objective, and a separate economic objective?

Answer. If a company is currently borrowing funds from RUS and has no plans to provide broadband service in a specific area, then RUS will consider making a loan to another entity to provide the broadband service. Although RUS has not approved a loan of this nature to date, we are constantly fielding questions about going into an existing borrower's service territory. We request that a short explanation of the proposal be prepared for our consideration before an application is prepared. With the goal to get broadband everywhere, it is highly likely that RUS will eventually approve loans for the same area to different entities. Entity "A" may only be providing voice service and the loan to Entity "B" could be to provide the broadband service.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

RENEWABLE ENERGY OF THE 2002 FARM BILL

Question. My first question about Section 9006, Renewable Energy Projects and Energy Efficiency Improvements, concerns the timing of the fiscal year 2005 program implementation. On March 28, 2005, the Department announced the availability of $11.4 million in grants under the Section 9006 program, with an application deadline of June 28. The Department reserved the balance of the Section 9006 funding for a not-yet-announced loan guarantee program. The Department committed to releasing the loan guarantee rules later this spring. According to the Department, any funds for loan guarantees not used by August 31, 2005, will be made available for grants.

I am concerned that the Department, having reserved 50 percent of the nearly $23 million in funding for an as-yet-announced loan guarantee program, will not have sufficient time to make the unused loan guarantee money available for grants this year. Last year's grants-only program was well-oversubscribed, and I expect the program to be even more popular this year.

Will you commit to me that the Department will make all of the unused loan guarantee money available for additional grants this year, and obligate those additional grants by September 30, 2005? Otherwise, the Department risks leaving millions of dollars of unused money on the table that could have gone for worthwhile projects in Iowa and around the country.

Answer. The agency anticipates publishing a final rule for the section 9006 program in late June or early July of 2005. The rule will implement the guaranteed loan program authorized by the 2002 Farm Bill.

The agency plans to provide both grants and loan guarantees during fiscal year 2005. In order for the public to be able to take advantage of guaranteed loans in 2005, it was necessary to announce the availability of the set aside funds in the March 28, 2005, grant program Notice of Funds Availability (NOFA).

USDA will evaluate all grant applications received by the deadline published in the NOFA. Grants will be awarded to all qualified applicants, or until the initial phase of funding is exhausted, whichever occurs first. Guaranteed loan applications received by the deadline for that part of the section 9006 program will be evaluated and guarantees will be provided for all qualified applicants, or until funds are exhausted, whichever occurs first. As the NOFA indicates, any guaranteed loan funds not obligated by August 31, 2005, will be pooled and made available to fund any remaining qualified grant applications.

We fully expect to complete loan and grant awards to qualified applicants by September 30, 2005.

My second question involves the scope of the final rules for the Section 9006 program. Section 9006 requires the Department to offer grants, loan guarantees, and direct loans to eligible applicants. Unlike loan guarantees, direct loans are a dedicated source of capital for clean energy projects, and they are less cumbersome for applicants to obtain. Direct loans also are often more attractive for smaller but equally deserving clean energy projects, since banks are unlikely to issue loan guarantees for these small projects.

Question. Considering the clear statutory requirement for direct loans, and their multiple benefits, will the Department include a direct loan component in the final section 9006 program rules that you have said will be issued later this summer? If not, why not?

Answer. The final rule must be within the scope of the proposed rule that USDA published last year, which did not contain detailed provisions for a direct loan program. Moreover, the Notice of Funding Availability (NOFA) that USDA published earlier this year does not provide for direct loans in fiscal year 2005. However, if USDA determines that funds are available for direct loans in future years, it can implement a direct loan program by including such provisions in a future NOFA or by issuing regulations.

RURAL BUSINESS COOPERATIVE SERVICE

Question. It is my understanding that an advisory committee was formed with outside experts to make recommendations on the mission of the Rural Business Cooperative Service and specifically regarding cooperative models and activities. I am concerned whether this advisory committee operated in an open fashion in order to allow interested groups and individuals to participate or even to have knowledge of any proposed changes to existing cooperative models and activities.

Under what authority was the advisory committee constituted? Were these meetings advertised in a public manner in accordance with the Federal Advisory Committee Act? What were the findings, conclusions and recommendations of the advisory committee? Are the advisory committee's findings, conclusions and recommendations contained in a document? Is that document public? Please promptly provide the document to the committee. Who at the Department initiated and administered this advisory committee process, and who were the actual members of this advisory committee? What is the current status of the advisory committee?

Answer. Rural Development contracted for an outside program review of Cooperative Services. An advisory committee was not formed. The review was to identify improvements or changes in the Cooperative Services programs to better assist today's rural cooperatives, opportunities for leveraging the present Cooperative Services programs and capacity to support a broader range of cooperative strategies and approaches to building economic vitality in rural areas, and new ways of generating capital for cooperative organizations. Rural Development just received the independent contractor's report and the recommendations and conclusions are under initial review and analysis.

QUESTIONS SUBMITTED TO JOSEPH J. JEN

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

BASIC SCIENTIFIC RESEARCH

Question. What do you believe the appropriate role of USDA is in supporting basic scientific research at the land grant colleges and universities?

Answer. USDA, through CSREES, is now and should support land-grant university efforts in all aspects of research relevant to the advancement of the food and agricultural sciences. New knowledge and the technological advancements to which it contributes will always be necessary to maintain an economically viable and environmentally sound food and fiber industry for the United States.

Question. Do you believe that basic scientific research will be able to receive funding through competitive awards?

Answer. The highly productive basic scientific enterprise that has developed in the United States in the years following World War II has been built on sound systems of competitive awards by agencies of the United States government. The USDA/CSREES, through its competitively awarded grants programs such as the National Research Initiative, has been the major supporter of basic scientific research in fields relevant to food and agriculture. The success of this program and its promise for the future are the reasons for its strong support by Congress, the Administration, and the scientific community.

FORMULA FUNDS

Question. The land grant colleges and universities are not supportive of the proposed cuts to the formula funds.

—Other than preferring more competitively awarded research, what does USDA believe is wrong with the current funding mechanisms?

Answer. The commitment to improving the overall quality of Federal research led to the fiscal year 2006 budget redirection of funds from formula research programs to competitive programs. Moving from formula-based to competitive funding changes only the mechanism by which science is supported, not the goals or objectives of the work. The emphasis on competitive programs in the President's budget is consistent with views held beyond the Administration. Within the last few years Congress has directed USDA to support studies looking at its research programs. The reports from these studies recommend increasing the relative, as well as absolute, level of funding to support competitive research. In addition, the State Agricultural Experiment Station Competitive Grants Program proposed in the President's budget will provide a source of funding for functions currently supported by formula funds.

MISCONDUCT POLICY

Question. In a recent report, the USDA Inspector General says that the Cooperative State Research, Education, and Extension Service does not have a Federal Research Misconduct Policy, which is required of Federal agencies, and that the Agricultural Research Service has such a policy but it is not in compliance with Federal standards.

What are your plans to bring the agency in compliance?

Answer. The Office of the Undersecretary for Research, Education, and Economics will serve as the centralized body for research misconduct on behalf of the Department. By June 30, 2005 a Federal Register notice will be published announcing the mission area's research misconduct role and accepting the Office of Science and Technology Policy (OSTP) definition of research misconduct as the USDA definition. The Cooperative State Research, Education, and Extension Service (CSREES) will take the lead on preparation and publication of the Federal Register notice. Each USDA agency will be required to develop policies and procedures compliant with the OSTP Federal Research Misconduct Guidelines, or if more appropriate, to execute a Memorandum of Understanding with another Departmental agency to act on their behalf with respect to research misconduct. Agency policies are to be completed no later than 9 months following publication of the Federal Register notice noted above. CSREES will refine and document its research misconduct policy. This will be reviewed by the Office of General Counsel for OSTP compliance and subsequently published in the Federal Register and on the agency's website.

The Agricultural Research Service is working with Department officials to bring its Federal Research Misconduct Policy into compliance.

STATE AGRICULTURAL EXPERIMENT STATION

Question. How will the proposed State Agricultural Experiment Station competitive grants program work?

Answer. A CSREES working group of national program leaders has been charged with the task of developing a preliminary design for the new competitive grants program for the State Agricultural Experiment Stations (SAES). Our initial planning for the SAES program emphasizes broad national issues which are manifested in a wide range of regional and local research problems, including regional pest management, marketing and other farm management and local economic issues; ecosystem management; and new uses and products. Grants may also emphasize multi-institutional planning and coordination to take advantage of system-wide capacity in areas such as plant and animal disease and international markets, and sustaining capacity to assure rapid response to problems in agrosecurity and food safety.

Question. How will the funding be allocated?

Answer. Funding for the SAES program will be competitively awarded.

Question. Who will review the grant submissions?

Answer. Proposals will be reviewed by ad-hoc reviewers (reviewers who do not meet in a formal panel setting) and/or peer panel reviewers.

Question. Who will make the award decisions?

Answer. The ad-hoc reviewers and/or peer panel reviewers will consist of experts in the food and agricultural sciences who will recommend to CSREES projects for award based upon established evaluation criteria.

QUESTION SUBMITTED BY SENATOR CONRAD BURNS

HATCH ACT/MCINTIRE-STENNIS

Question. In Montana, our colleges and universities are engaged in important and high-quality research that yields significant benefits for Montana agriculture. Yet the President's budget proposes to slash Hatch Act and McIntire-Stennis funding. I appreciate the desire to shift funds into competitive grants, but our universities rely on this funding to sustain long-term research programs.

—Competitive grants are important, but shouldn't they be part of a balanced portfolio of Federal investment in agriculture and forestry research?

Answer. Moving from formula-based to competitive funding changes only the mechanism by which science is supported, not the goals or objectives of the work. Competitive programs can be designed to build and sustain research capacity; assure that research contributes to teaching and extension programs; link strengths and unique expertise across institutions; and address local and regional issues which collectively secure the national agricultural system. In addition, with full indirect cost recovery as part of competitive funding, institutions can maintain and continuously improve the infrastructure needed to support modern science, as well as support specialized undergraduate, graduate, and postgraduate training in the agricultural sciences. Also, the State Agricultural Experiment Station Competitive Grants Program proposed in the President's budget will provide a source of funding for functions currently supported by formula funds.

QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

Question. The U.S. dry edible bean industry has been working with NASS to establish parameters so that a national dry bean stocks report can be implemented.

Please describe how such a survey and reporting would be accomplished, including the details of the parameters of such reporting.

Answer. The survey would be a census of all off-farm dry bean storage facilities in eighteen States. Approximately 3,200 storage facilities would be contacted during each survey period. The survey would be conducted in June and December. Reporting would be by mail, phone, and electronic data reporting. The initial survey would also include personal interviews to help answer any questions the respondent might have about the program.

Question. What do you estimate the initial cost to establish, and the ongoing annual costs for, a national dry bean stocks report to be, assuming the parameters you outline in the response to the above question?

Answer. NASS' cost estimate for the first year is $650,000. The projected cost for subsequent years is $550,000 per year.

Question. Will USDA make establishing a national dry bean stocks report a priority and include its cost in the fiscal year 2007 budget request to the Congress?

Answer. A proposal for instituting a national dry bean stocks report will be seriously evaluated by USDA during the budget process when establishing priorities among the many emerging needs requested of the Department.

Question. If Congress provides sufficient funding to establish a national dry beans stocks report in the fiscal year 2006 USDA appropriation, when would NASS be able to start such reporting?

Answer. NASS would be able to start reporting in June 2006. The following report would come out in January 2007.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

ECONOMIC RESEARCH SERVICE REPORTS

Question. Dr. Jen, I would like to compliment you and the employees of the Economic Research Service for the good work they do. From their Amber Waves magazine to other shorter reports that ERS publishes, this Agency provides very helpful and timely information in its publications.

How are ERS publications made available, and how does USDA work to make sure the general public is aware of their existence?

Answer. ERS develops and disseminates a broad range of economic, social scientific, and statistical information to the public. The agency publishes economic information and research results on the web and in a variety of agency-published research reports, market analyses and outlook reports, articles published in ERS periodicals and articles published in professional journals. Our research is available to the public in print (which may require a small fee) and online (without charge).

ERS distributes this information through an array of academic, policy-, and public-oriented outlets. All ERS publications (including Amber Waves) are distributed to (and by) the Government Printing Office (GPO), the National Technical Information Center (NTIS), GPO Depository Libraries, and the 1890 Land Grant Universities. Commodity Outlook reports are also distributed to Cornell University's Mann Library (USDA's economics and statistics system). Many publications are provided to university Agricultural Economics departments, the Social Science Research Network (SSRN), and other targeted distributions.

The ERS website (www.ers.usda.gov) provides instant access to ERS publications, economic and statistical indicators, and datasets. In fact, ERS' website includes an increasingly comprehensive body of materials, covering the equivalent of 6,000 200-page books covering:

- —Five research emphasis areas that reflect the agency's strategic goals and research program
- —Over 90 briefing rooms offering in-depth syntheses of ERS research on important economic issues
- —Twenty-two key topic areas populated with data, publications, and other products
- —Access to around 9,000 datasets and a range of data products available in different formats, including online databases, spreadsheets, and interactive web files and mapping applications
- —Over 1,400 publications, including commodity outlook newsletters
- —An "About ERS" section pointing to subject specialists, job listings, and other services
- —A newsroom containing concise overviews of key issues, research findings, and analysis
- —Amber Waves magazine, including web-exclusive feature articles, covering the economics of food, farming, natural resources, and rural America
- —A calendar of upcoming releases
- —A subscription-based electronic notification service that supplies e-mail alerts on newly released or updated products, covering 50 different topic areas and going to 22,000 subscribers.

In February of 2005, the website attracted over 320,000 visitors, and over the past 4 years site usage has increased 324 percent.

When new research publications and products become available, we send e-mail notices, postcard notices, report summaries, and sometimes printed copies of new reports to customers who have expressed interest in specific ERS topics by registering via the Internet from a designated page on our website. About 22,000 ERS customers have signed up for e-mail notifications and about 2,500 have signed up for printed material. The overlap between the two lists is about 300.

Oral briefings, written staff analyses, and congressionally mandated studies are delivered directly to executive branch policymakers and program administrators. We keep the media and Congressional staff informed of new ERS material via our monthly media newsletter, DatelinERS, which is a monthly two-page newsletter (available in both printed and electronic format) announcing recently released ERS publications, data products, and other web resources. We also keep our website homepage and newsroom up-to-date, featuring the latest research and analysis available. We help educate the media about what's available on our website each time they call us for information. They, in turn, write stories that the general public reads.

We also exhibit at various conferences throughout the year, educating the researchers, industry professionals, and the general public about what we do. We bring publications and demonstrate the website at these events.

ARS TERMINATIONS

Question. The President's budget proposes to eliminate more than $200 million in ARS research activities that Congress has determined to be of high priority. These proposed terminations include work that has been ongoing for 4 or 5 years.

How does USDA expect Federal employee morale to remain high given these proposals?

Answer. Research managers have to confront morale issue on a daily basis and from a variety of sources. While proposals to not continue funding for these projects have a negative impact on the employees affected, ARS must retain the flexibility to proposed reallocations of its resources to meet new challenges that affect the Nation.

Question. What effect is it having on recruitment?

Answer. We have advised all potential research candidates of the proposed terminations.

CSREES CUTS IN FORMULA FUNDED RESEARCH PROGRAMS

Question. The President's budget proposes to cut in half or eliminate formula-based funding to land grant universities across the country for research related to general agriculture, forestry, and animal health. These funds have helped to develop, and continue to maintain, a strong cooperative relationship between USDA and the states to share in research challenges and outcomes. Such drastic cuts are very troubling and shake the foundation of that once-strong partnership.

I strongly support competitive research, such as the National Research Initiative, but it is important to note that the formula-based funds help state universities, such as the University of Wisconsin, respond rapidly to sudden problems.

A few years ago, the soybean aphid was discovered in Wisconsin, and was beginning to spread to neighboring states. Within 6 weeks, the University of Wisconsin, using formula-based Hatch Act funds, was able to set up a multi-state working group that was able to research the problem, determine methods of control, and get information to local farmers on what they could do to protect against losses. If those researchers had only competitive or special research grants for problems like this, the ability to respond rapidly would be lost. And that is just one example. Over the past few weeks, there have been reports of an invasive pest that has appeared in the Mid South that affects rice production. States in that region were able to respond with formula funds in much the same way we were able to deal with the soybean aphid. Soybean rust will be another example. To drastically cut or eliminate these funds is an indication the President does not realize the importance of these funds.

—How do you propose to work with state research institutions on problems that arise suddenly if you have greatly reduced or eliminated the source of Federal funds they could use for that purpose?

Answer. The fiscal year 2006 budget proposes the new $75 million State Agricultural Experiment Stations Competitive Grants Program focused on regional, state and local research needs. Our initial planning for this program emphasizes broad national issues which are manifest in a wide range of regional and local research problems. Grants also may emphasize multi-institutional planning and coordination to take advantage of system-wide capacity in areas such as plant and animal diseases and international markets, and sustaining capacity to assure rapid response to problems in agrosecurity such as soybean rust. This program will provide a source of funding for functions currently supported by formula funds.

Question. If you shift Federal resources from formula-based funds to competitive-based programs, how do you intend to help research institutions that still need to build their capabilities in order to fairly compete for Federal funding?

Answer. Moving from formula-based to competitive funding changes only the mechanism by which science is supported, not the goals or objectives of the work. Competitive programs can be designed to build and sustain research capacity; assure that research contributes to teaching and extension programs; link strengths and unique or limited expertise across institutions; and address local and regional issues which collectively secure the national agricultural system. In addition, with full indirect cost recovery as part of competitive funding, institutions can maintain and continuously improve the infrastructure needed to support modern science, as well as support specialized undergraduate, graduate, and postgraduate training in the agricultural sciences.

Question. Won't there be definite winners and losers in your plan?

Answer. As in all plans that change the way in which funds are distributed, there will be winners and losers. Smaller institutions including those located in the territories will be impacted by the cut in formulas. Institutions who are currently eligible to receive McIntire-Stennis and Animal Health and Disease Research formula funds but who are not land grant institutions, will not be eligible to compete for funds under the new State Agricultural Experiment Stations Competitive Grants program. It is assumed that institutions who in the past have been successful in competing for competitive funds will continue to do so in the future. While the amount of formula funds available to institutions in fiscal year 2006 will be reduced or eliminated, it will ultimately be up to each institution to determine how to allocate funds available from Federal and non-Federal sources to continue research projects or support personnel.

CLASSICAL PLANT AND ANIMAL BREEDING

Question. Dr. Jen, the Senate fiscal year 2005 report included language under CSREES encouraging the Department, especially in the establishment of priorities within the National Research Initiative, to give consideration to research needs related to classical plant and animal breeding.

What, if any, steps have the Department taken in response to this language? Have any changes been made in the NRI priority process to reflect these concerns?

Answer. For classical plant breeding, the NRI will be offering funding opportunities for research, education, and training in a number of plant programs for fiscal year 2006. In the current NRI plant programs, support is provided for the development of techniques and tools, such as marker-assisted selection and quantitative trait locus analysis, which can be used in plant breeding. In the current NRI animal programs, support is provided for research in areas such as genetic or breed comparisons, identification of genetic markers, including quantitative trait loci and economic trait loci, marker-assisted selection, and chromosome identification, which can be used in classical animal breeding.

The NRI sets program priorities based on input from stakeholder groups which include commodity groups, producers, the scientific community (including scientific societies) and other interested parties. The National Program Leaders have continuing, ongoing interactions and discussions with stakeholders through workshops and conferences, written input and reports from stakeholders, as well as input via telephone and e-mail. Stakeholder input is vital to setting the priorities and directions of the NRI programs.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

PRESIDENT'S FISCAL YEAR 2006 BUDGET PROPOSAL

Question. The President's fiscal year 2006 budget proposes to move the competitive, integrated grants programs (Water Quality, Food Safety, several IPM-related programs, Methyl Bromide, and Organic Transitions) currently managed under Section 406 of the 1998 Agriculture Research, Extension and Education Reform Act (AREERA) to the National Research Initiative.

Does this proposal indicate a shift in research, education and extension priorities? If so, why are the priorities changing and which current Section 406 programs will see increases or decreases under the new proposal. If not, what are the specific, detailed plans for integrating the existing 406 programs within the NRI?

Answer. With the consolidation of programs, CSREES does not plan to redirect priorities—all emphasis areas will remain in the portfolio of programs. The primary purpose for moving integrated program activities to the National Research Initiative Competitive Grants Program (NRI) and to the new state Agricultural Experiment Stations Competitive Grants Program (SAES) is to streamline the presentation of the budget, thus reducing the appearance of redundant programs.

Question. Will each current 406 program be a separate NRI national program? Will their funding allocation be increased, decreased or remain the same compared to fiscal year 2005 Section 406 levels? Does the agency expect that participation of Extension in the integrated programs will increase, decrease, or remain unchanged if this proposal were to be approved?

Answer. The fiscal year 2006 Budget proposes that Section 406 activities will be funded at $41.9 million, but the grants will be administered through the NRI or the new SAES competitive grants program. This will allow greater flexibility and responsiveness to changing needs in these targeted areas. In addition, the fiscal year 2006 Budget also proposes an increase from 20 percent to 30 percent of funds that may be used to support competitive integrated research, education, and extension programs.

Question. With respect to the Organic Transitions program, would the proposal retain a specific organic national program within the NRI; and would the farm bill's Organic Farming REE program, currently jointly administered with Organic Transitions, be administered separately?

Answer. In fiscal year 2006, it is proposed that research programs focused on activities such as organic transition could be supported not only with NRI funds but also in the new SAES program. As we move forward in planning for both the NRI and the new SAES competitive grants program, we will insure coordination with the Organic Agriculture Research and Education Initiative to maximize the effectiveness of the funds available for award.

Question. Finally, please provide a detailed accounting of the number and type of stakeholder groups who were involved in the development of the proposal to transfer these programs from Section 406 to the NRI, including specific meeting dates and participants.

Answer. While we are prohibited from sharing budget details with outside groups during the budget development process prior to release of the President's budget proposal, we have and will continue to consult widely with universities, stakeholders, and customers to insure that CSREES research dollars are utilized in the most effective and efficient way to address critical research issues. In the last 6 weeks, the CSREES Administrator has met with over 1,000 direct clients and customers across the country to discuss the fiscal year 2006 budget and gain input from customers and stakeholders as we continue program planning. In addition, an agency team is developing a proposal for the proposed SAES program which will be available for public comment.

QUESTIONS SUBMITTED TO J.B. PENN

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

FOREIGN AGRICULTURAL SERVICE (FAS) REVIEW

Question. I understand FAS is currently undertaking an organizational review. What is the status of that review?

Answer. FAS has made progress in its organizational review and is continuing to re-examine the agency's core mission, goals, and resources. Input from the private sector has re-affirmed support for FAS' network of overseas offices, specifically to resolve market access issues and provide market intelligence for U.S. agricultural producers and industry. Internal groups are currently reviewing crosscutting strategies and tactics, particularly in the context of FAS' market access mission. Ongoing discussions regarding both FAS' mission and budget concerns have resulted in some shifts in overseas resources such as downsizing in Europe along with limited expansion plans to cover developing markets.

Question. When will final recommendations be released?

Answer. Internal working groups have developed some initial recommendations and more comprehensive recommendations are being researched and evaluated. We anticipate this review process will culminate in final recommendations being presented to the FAS Administrator in the fall of 2005.

LIVESTOCK RISK PROGRAM FOR LAMB

Question. What is the status of the sheep industry's proposed Livestock Risk Program for lamb?

Answer. Unfortunately, details of the proposed Livestock Risk Protection (LPR) program for Lamb submission and discussions of the proposal with the submitters cannot be disclosed. Submissions under section 508(h) (4)(A) of the Federal Crop Insurance Act (Act) must be considered to be confidential commercial or financial information during the period preceding any decision by the Board.

Applied Analytics Group (AAG) and the American Sheep Industry Association (ASIA) submitted a proposal to include lamb in the LPR program in accordance with Section 508(h) of the Act. On October 28, 2004, the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) voted to send the proposed LRP Lamb Program for external review by a panel of five persons experienced as actuaries and in underwriting as required by the Act.

On January 13, 2005, the Board considered the input it received from the external reviewers and the Risk Management Agency and discussed the responses to such by AAG and ASIA. Based on these discussions, the Board agreed to table the proposal for 45 days to provide AAG and ASIA time to provide modifications to their LRP lamb submission.

AAG and ASIA met again with the Board on April 28, 2005, to discuss issues raised by the external reviewers and RMA and concerns of the Board.

On April 28, 2005, the Board voted unanimously to give notice of intent to disapprove the LRP lamb submission.

The Board is sympathetic to the needs of the sheep industry for a viable risk management tool; but, must also assure any proposed program complies with all applicable provisions of the Act, the interests of producers are adequately protected, premiums rates are actuarially appropriate, and that program integrity will be protected.

PUBLIC LAW 480

Question. The fiscal year 2006 budget proposes transferring $300 million from the Public Law 480 Title II account to USAID. What effect will this have on USDA's role in administering food aid?

Answer. At this time it is not expected that USDA will have an in-depth administrative role with regard to the $300 million; however, interagency coordination across all food aid programs will continue. USDA will continue to procure the food under Public Law 480 title II. USDA's role in procuring commodities funded through the $300 million allocated to USAID will depend on whether the commodities are purchased in the United States or outside of the United States. If the commodities are procured outside of the United States, USDA would not be expected to have a role in the procurement of these commodities. USAID will be responsible for the budget and the financial management of those resources.

WEB-BASED APPLICATIONS

Question. FSA has put emphasis on web-based applications. What percentage of producers are utilizing this technology?

Answer. According to the August 2003 Computer Usage and Ownership Report of the National Agricultural Statistics Service, a total of 48 percent of U.S. farms have internet access. Of the 58 percent of farms that have access to a computer, 54 percent own or lease one. Thirty percent of farms use a computer for their farm business.

Question. Do you have benchmarks to track your success?

Answer. We are tracking internet usage daily for the web-based applications we have deployed. FSA is currently receiving approximately 200,000 external web-site hits monthly. Over 45,000 customers have obtained eAuthentication credentials—i.e., electronic signature—to conduct business electronically with FSA.

The major web-based applications that have been deployed include:

—*Web-based Forms.*—Since the first forms became available in June 2002, FSA has been expanding this capability, specifically targeting forms that our customers can electronically access, sign, and submit on line. FSA has posted over 700 forms to our eForms website, with over 100 in Spanish.

—*Electronic Loan Deficiency Payments (eLDP's).*—Pre-approved producers can access a web-based application and interactively file applications for LDP's. The web-based applications will accept the LDP transactions, calculate and issue electronic payments, and issue electronic notification of the payments to the participating producers. The eLDP project was deployed nationwide in September 2004. Over $30 million has been distributed, and 12,000 applications have processed. Over 7,000 customers have established eLDP profiles.

—*Electronic Direct and Counter Cyclical Payment Program (eDCP).*—The eDCP was deployed in October 2004 and enables producers to enroll using web-based public access facilities in the new system.

—*Electronic Representative (eRep).*—Deployed in September 2004, this application allows various entities such as partnerships, corporations, trusts, and estates, to conduct business with FSA electronically.

—*Customer Financial Inquiry Data Mart.*—This application provides FSA customers access to FSA/CCC payment, receipt, debt, and IRS reporting information. Deployed March 2004 in conjunction with the USDA Customer Statement.

—*USDA Common Customer Statement.*—Deployed March 2004. With linkages to FSA's Customer Financial Inquiry Data Mart and Farm Loan Customer Status Web Service, allows producers to obtain information such as payments and receipts.

—*Farm Business Plan Manager—Equity Manager.*—This farm business planning and financial/credit analysis tool is being used to determine credit worthiness during the life of an FSA farm loan. Initial deployment to FSA farm loan employees occurred in 2004. Access will be expanded to FSA guaranteed lenders in 2005.

Question. How are you encouraging producers to take advantage of this technology?

Answer. We are encouraging producers in a number of ways. At various farm trade shows we are displaying and demonstrating our new applications as well as providing printed brochures and posters. In our county offices the print material is also available, and FSA employees are promoting these new tools and providing our customers instruction on using them. FSA employees are also promoting these tools when speaking in different forums across the country. In addition, almost every press release, brochure, and poster that FSA produces contains a promotional website link.

QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

BEEF TRADE

Question. Resuming beef trade with major foreign markets is a priority for me, as it is for many Senators. I know USDA shares that priority. However, news reports from some of these countries, particularly Japan, indicate that consumer fears about U.S. beef safety still exist.

In addition to your efforts to open the borders, what types of things is USDA doing to promote U.S. beef internationally, and reassure consumers in major markets that our beef is the safest in the world?

Answer. The Japanese and Korean governments have specifically asked that USDA implement a risk communications plan to help sell any agreement between the United States and their respective countries on Bovine Spongiform Encephalopathy (BSE). In response, FAS and the U.S. Meat Export Federation (USMEF) have produced a joint pre- and post-opening risk communications plan that focuses on consumer, media, and political beef trade concerns and misperceptions about BSE. Both USDA and USMEF have begun to implement and plan activities to communicate the proper messages such as editorials, journalist trips to the United States, BSE seminars, advertisements, and dissemination of technical materials.

In addition, Dr. Charles Lambert, Deputy Under Secretary for Marketing and Regulatory programs, has led a U.S. delegation of experts to Tokyo for outreach activities and technical discussions with Japanese government officials. Outreach activities include press briefings and roundtables with the press, industry, and consumers to help convince Japanese that U.S. beef is safe.

SUGAR

Question. The 1.2 percent marketing assessment for sugar producers appears, at first glance, to be not much more than a tax on sugar. If I understand correctly, the revenues go directly into the General Fund, rather than to an agriculture-related purpose. Can you provide a little more background on the rationale for this assessment?

Answer. The sugar marketing assessment is proposed as part of a package that spreads the deficit reduction burden across all farmers that benefit from Federal agricultural programs. The deficit reduction activities that will affect most agricultural program beneficiaries, i.e. reduction in marketing loan gains, tightening payment limitations, and the general 5 percent reduction in payments, will not affect sugar program beneficiaries because the sugar program does not improve sugar beet and sugarcane growers' income by direct payments from the Federal Government. The sugar program increases farm income by increasing the domestic sugar price by limiting supply through an import tariff-rate quota and a domestic marketing quota. There is a nonrecourse sugar loan available, but the sugar program is specifically required to manage supply to avoid the cost of sugar loan collateral forfeitures. A sugar marketing assessment, similar to the current proposal, was included in the Omnibus Budget Reconciliation Acts of 1990 and 1993 to spread the cost of deficit reduction among all Federal program beneficiaries.

CROP INSURANCE

Question. Last year, RMA successfully negotiated a new Standard Reinsurance Agreement for crop insurance providers, which included some reductions in administrative & overhead costs, as well as underwriting gains. This year's budget includes further reductions in underwriting gains, as well as some modifications to premium subsidies. Crop insurance is a critical risk management tool for my producers in Montana, and I want to ensure that the program remains strong. Can you discuss the Administration's commitment to effective risk management tools, and how this year's proposals strengthen crop insurance delivery?

Answer. One of the highlighted goals of the Administration's budget is strengthening crop insurance delivery to ensure that farmers have adequate yield and price protection. The value of crop insurance protection in 2006 will be about $41 billion, representing more than 80 percent of the Nation's acres planted to principal crops. Despite the high level of participation, demand still exists for ad hoc disaster assistance due in part to reliance on catastrophic coverage which affords the producer only 27.5 percent protection in the event of a total loss.

In continuing the Administration's efforts to more effectively budget for and administer disaster assistance programs, the 2006 budget includes a proposal to compel producers to purchase more adequate coverage by tying the receipt of direct payments or any other Federal payment for crops to the purchase of crop insurance.

Other changes include modifications to the fee for catastrophic coverage that is intended to make the program more equitable in its treatment of both large and small farms, restructuring premium rates to better reflect historical losses, and reduction in delivery costs. The combination of changes is expected to save the government approximately $140 million per year, beginning in 2007.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

FSA AGENCY LOAN OFFICERS

Question. I understand a disproportionately large number of Farm Service Agency loan officers will be eligible to retire in the next 2–5 years. Moreover, we are told it takes at least 2 years of on-the job-training before a new loan officer can function at full competence. Considering the critical impact these employees have on America's farmers and ranchers, this raises some important questions. How many of your senior loan officers, in the national office and in the field, are eligible to retire?

Answer. FSA's records indicate that 287, or 17 percent, of the agency's loan officers will be eligible to retire in fiscal year 2005.

Question. How many will be eligible to retire in each of the next 1 to 5 years?

Answer. So far, the agency has analyzed the data for the next 3 fiscal years. The information for those years is as follows:

Fiscal year	Number of Loan Officers Eligible to Retire	Percent of Total Loan Officers
2006	345	21
2007	408	25
2008	492	30

Each year's retirement eligibility includes those eligible from the previous year, plus those becoming eligible to retire during that year.

Question. How many do you think will actually leave in fiscal year 2006?

Answer. Because each individual's situation is different, it is difficult to predict the actual number of retirements in any given year. However, given the high workload, the high rate of change in program policies and information technology, and similar stress factors associated with the farm loan manager position, we expect that a substantial percentage of those employees eligible for retirement will actually retire.

Question. What plans are you making in your 2006 budget request to prepare your staff to replace those positions?

Answer. The President's fiscal year 2005 Budget included a request for 100 trainee positions to establish a "pipeline" of new loan officers in anticipation of coming retirements. However, because appropriated funds were below the President's request, the agency made the difficult decision to forgo filling those positions. Given the continued need for fiscal restraint, the fiscal year 2006 President's Budget did not include the 100 positions. As part of a comprehensive review of agency operations, FSA is studying the best approach to ensuring a sufficient, well-trained cadre of farm loan officers.

Question. If you agree that having adequate and fully competent loan officers is necessary for the agency to fulfill its mission, why are you not requesting funds to maintain an adequate force of loan officers instead of asking for $3,300,000 for new outreach efforts?

Answer. Adequate and fully competent loan officers are indeed necessary for the agency to fulfill its mission. Under an initiative known as "FSA Tomorrow," the agency is performing a top-to-bottom review of its operations to determine whether its current structure best serves present and future requirements. The need to ensure adequate staffing of trained loan officers as well as employees in all mission-critical occupations will be addressed as part of that review.

The stakeholder discussions that FSA held in developing its strategic plan revealed that outreach to ensure equitable access to programs by underserved populations is a critical issue. The agency believes that its goal of outstanding customer service cannot be realized if it fails to reach many of its potential customers. Therefore, even in view of the many difficult choices required in carrying out operations while constraining costs, FSA believes that an enhanced outreach program is a high priority.

Question. Where and what population will you target in your requested outreach efforts?

Answer. FSA's outreach efforts will address various populations throughout the country that are underserved, particularly in access to farm loan programs. As an example, one of FSA's outreach projects is a cooperative agreement with the National Tribal Development Association located in Montana. The National FSA American Indian Credit Outreach Initiative, which has been ongoing for 3 years, is designed to reach out to Native Americans on reservations to inform them about FSA farm loan programs and to assist them in applying for loans. FSA has other cooperative agreements to inform minority producers about FSA programs and to encourage their participation. FSA is also reaching out, in partnership with other Department of Agriculture agencies, to community-based organizations to encourage minority participation in FSA loan programs.

The additional $3,300,000 requested in the President's fiscal year 2006 Budget will be used to expand FSA's work with its partners and customers to increase program participation of underserved customers, with special emphasis on socially disadvantaged and/or limited resource farmers, women, and members of minority groups such as Native Americans, Hispanics, Asian-Pacific Americans, and African Americans.

Without this requested funding increase, the resources required to perform this much-needed work must be taken from FSA's salaries and expenses budget, thus placing downward pressure on FSA's hiring ceilings.

Question. Have you ever tested your employees, for example, by using third party entities, to see if your loan programs are being administered in compliance with Federal statutes including the Equal Credit Opportunity Act?

Answer. To date, third party testers have not been used. The agency uses several different compliance review processes to ensure that all regulatory requirements are met. FSA program and civil rights staffs conduct routine reviews of office operations and loan processing and servicing activities. If at any time problems become evident, special targeted reviews are conducted as well. The agency maintains a special focus on monitoring the processing of loans from minority and female applicants; periodic reviews of denied applications must be performed by managers, and corrective action taken immediately upon detection of problems.

Question. Would not such tests be an appropriate way to identify and address existing problems within your agency while conducting additional outreach efforts? Wouldn't this be a cost-effective way to deal with overall problems within the agency?

Answer. Additional compliance testing will not completely solve several of FSA's problems with regard to underserved populations. In order to apply for farm loans, producers, especially women and minorities, must be made aware of the available loan programs. They must also, in some cases, be encouraged and assisted by community-based organizations and minority-serving educational institutions. Special efforts must also be made to communicate with minority producers who have special cultural and linguistic needs. While FSA agrees that customer service during the loan application and approval process is crucial, removing barriers to applying is also essential. FSA is currently focusing its outreach effort on overcoming these known barriers.

FAS FOREIGN OFFICE SECURITY

Question. The President's budget includes within the FAS salaries and expenses account, nearly $3 million for capital security costs in overseas locations and an additional $650,000 contribution for the Baghdad Embassy. What assurances do you have that FAS location needs will be met as are now indicated by the contribution rates you have been assigned?

Answer. The State Department has developed a capital construction program to provide adequate and secure space for all agencies overseas. The costs of the program are based on a worldwide headcount and not tied to specific facilities in specific locations. We will continue to work with the State Department to ensure that FAS will be provided with adequate space for the numbers of personnel for which it is being charged.

Question. What input have you had with the State Department in development of the rates of contributions USDA has been assigned for this purpose?

Answer. After announcing the program, the State Department accepted some feedback from other agencies regarding the provision of credit for rent currently being paid and charging different rates for different types of personnel. Other than making those two changes to the calculation of agency contributions, the State Department has not adopted any other suggestions. The overall level of the program was determined by State, as was the rate of contribution for each employee.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

WTO DECISION ON USDA COMMODITY AND TRADE PROGRAMS

Question. In the course of crafting the 2002 farm bill, the House and Senate Agriculture Committees, with extensive advice from USDA, sought to keep the farm bill provisions consistent with our international trade obligations. Despite those efforts, last month a WTO appeals panel upheld the claims of the government of Brazil, which asserted that the U.S. cotton support program and certain other programs violate WTO rules. As a result, Congress faces a July 1, 2005 deadline for modifying the export credit guarantee and Cotton Step 2 programs in order to come into compliance with that WTO ruling. We will also have to address changes in the price-related farm programs by some later date. Congress needs the best advice of USDA regarding options for changes to the export credit guarantee and cotton step 2 programs that would be adequate to satisfy the requirements of the WTO appellate panel's decision. When will we receive this advice and guidance?

Answer. USDA is consulting carefully and extensively with the U.S. Trade Representative, industry, and others to craft a response to the WTO Appellate Body's decision. We will fully comply with the WTO decision. USDA will provide advice and guidance to Congress when we have determined how best to comply, taking into account the security of our cotton producers, the stability of our farm program, and the commercial opportunities and obligations of all who rely on our export credit programs, as well as our ambitions in the ongoing Doha WTO negotiations.

FARM SERVICE AGENCY-STATE ALLOCATIONS

Question. Earlier this year I received a letter from a constituent who was laid off from her temporary position with her county Farm Service Agency office. She was informed that because the State agency had not received its budget allocation for fiscal year 2005, there was not enough money to keep her on staff. Was there a particular problem with the State FSA budget allocations this year?

Answer. FSA's fiscal year 2005 President's budget assumed an overall reduction in temporary staff years of 1,067 due to the completion of final Farm Bill implementation activities. Although FSA was operating under multiple continuing resolutions from October 1, 2004 through December 8, 2004, temporary ceiling levels and allotments were made to all States. The total temporary employee ceiling level for Iowa is 70 staff years. The total temporary employee usage through the first half of the fiscal year was 36.72 staff years or 52 percent of the total ceiling level. FSA provided Iowa with full funding through the various continuing resolution periods, and subsequently for the full year, in order to ensure the ability of the State to manage its workforce in correlation with annual workload needs.

Question. What actions will FSA take to avoid future problems?

Answer. FSA complied fully with the requirements of the continuing resolutions and issued timely allotments to all States. FSA will continue to make every effort in the future to provide timely and accurate funding to all States.

Question. Does the FSA have enough funds to adequately staff local offices?

Answer. FSA completed a thorough review in order to ensure that critical mission goals are accomplished within the available resources, given that FSA's appropriation was $27.1 million below the requested amount.

FARM SERVICE AGENCY—BENEFICIAL INTEREST

Question. For most producers, claiming loan deficiency was a relatively routine procedure, but far too many producers encountered beneficial interest problems that blocked them from receiving payment. I encourage you to provide equitable relief where the loss of beneficial interest was inadvertent or unintentional. I also understand that FSA is working to combine forms to avoid some of the confusion next year and should simplify the process for both producers and FSA county office employees. What is the status of equitable relief for these producers?

Answer. The beneficial interest requirement for loan deficiency payments is the same as that which exists for commodity loans. Beneficial interest is a statutory requirement. Misaction or misinformation is determined on a case-by-case basis.

Question. What is the status of the form revision?

Answer. FSA is in the process of drafting a new form and instructions. We hope to have it available in time for corn harvest.

CONSERVATION RESERVE PROGRAM—SWITCHGRASS

Question. As you mentioned in your comments—we have a challenge ahead of us as existing CRP contracts expire. Working with the Chariton Valley RC&D, we were able to combine CRP and energy production in an innovative project in southern Iowa. I am concerned that the CRP acres planted to switchgrass may not receive priority when the owners bid those acres for re-enrollment in the CRP. Will the administration support the concept of a CRP "energy reserve" so we can continue this innovative project?

Answer. In August 2004, USDA asked for public comment on how to address the 28 million acres under CRP contracts that will expire between 2007 and 2010. USDA received about 5,200 comments, which we are reviewing and evaluating.

As we develop our options on how to address extensions and reenrollments, we will take into consideration the role that CRP can play as a renewable fuel source. The pilot program in Iowa is a prime example of the benefit that CRP can provide to meet some of our energy needs in an environmentally sound manner.

SUBCOMMITTEE RECESS

Senator BENNETT. Thank you. We have managed to beat the clock by 5 minutes for which we are very grateful.

As I said, all of the prepared material that you brought with you will be included in the record, and we will examine it. We thank you for your service and your attention to all these matters.

The next hearing will be tomorrow afternoon. We will examine food, nutrition, and consumer services, marketing and regulatory programs, and food safety.

Thank you again. The subcommittee is recessed.

[Whereupon, at 1:43 p.m., Wednesday, April 13, the subcommittee was recessed, to reconvene at 2 p.m., Thursday, April 14.]